(41)

FILED
SEP 10 2006
OFFICE OF THE CLERK

No. 05-130

IN THE

Supreme Court of the United States

EBAY, INC. AND HALF.COM, INC.,
Petitioners,

v.

MERCEXCHANGE, L.L.C.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENT

SCOTT L. ROBERTSON
GREGORY N. STILLMAN
JENNIFER A. ALBERT
DAVID M. YOUNG
BRIAN M. BUROKER
HUNTON & WILLIAMS LLP
1900 K Street, N.W.
Washington, DC 20006
(202) 995-1500

SETH P. WAXMAN
Counsel of Record
WILLIAM G. MCELWAIN
PAUL R.Q. WOLFSON
JOHN M. GOLDEN
SHIRLEY CASSIN WOODWARD
WILMER CUTLER PICKERING
HALE AND DORR LLP
2445 M Street, N.W.
Washington, DC 20037
(202) 663-6000

QUESTIONS PRESENTED

1. Whether the court of appeals erred in applying a supposedly "per se" or "automatic" rule requiring issuance of a permanent injunction upon a final adjudication that a valid patent has been infringed.

2. Whether this Court should reconsider its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), holding that a patentee whose patent is infringed is entitled to a permanent injunction even if the patentee does not use the invention.

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

TABLE OF AUTHORITIES v

STATEMENT 1

SUMMARY OF ARGUMENT 12

ARGUMENT 15

I. THE FEDERAL CIRCUIT APPLIED THE CORRECT LEGAL STANDARD IN REVIEWING THE DISTRICT COURT'S DENIAL OF A PERMANENT INJUNCTION 15

A. A "General Rule" Favoring Permanent Injunctions Is Fully Consistent With Traditional Equity Principles 15

B. The Federal Circuit's Approach Is Consistent With A Long History Of Robust Enforcement Of Statutory Rights To Exclude 20

C. Traditional Equitable Factors Generally Favor An Injunction When A Valid Patent Has Been Infringed 27

II. THE FEDERAL CIRCUIT RIGHTLY RULED THAT THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING A PERMANENT INJUNCTION 34

III. THERE IS NO REASON TO REVISIT THIS COURT'S PRECEDENT ON THE STANDARD FOR ENTERING A PERMANENT INJUNCTION IN PATENT CASES 44

A. *Stare Decisis* Is Particularly Forceful With Respect To *Continental Paper Bag* 45

TABLE OF CONTENTS—Continued

Page

B. Patent Policy Supports The "General Rule" That Injunctions Should Issue When Infringement Is Found 47

CONCLUSION 50

TABLE OF AUTHORITIES

CASES

Page(s)

Additive Controls & Measurement Systems, Inc. v. *Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993)..... 18, 41
Albemarle Paper Co. v. *Moody*, 422 U.S. 405 (1975)..... 15, 16, 28
American Safety Device Co. v. *Kurland Chemical Co.*, 68 F.2d 734 (2d Cir. 1934)..... 25
Amoco Production Co. v. *Village of Gambell*, 480 U.S. 531 (1987)..... 16
Amstar Corp. v. *Envirotech Corp.*, 823 F.2d 1538 (Fed. Cir. 1987)..... 17, 18, 19
Arnold v. *Melani*, 449 P.2d 800 (Wash. 1969)..... 32
Aronson v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979)..... 20
Brulotte v. *Thys Co.*, 379 U.S. 29 (1965)..... 38
Burke v. *Voicestream Wireless Corp.*, 87 P.3d 81 (Ct. App. Ariz. 2004)..... 32
Carborundum Co. v. *Molten Metal Equipment Innovations, Inc.*, 72 F.3d 872 (Fed. Cir. 1995)..... 17, 18, 36
Carter & Co. v. *Wollschlaeger*, 53 F. 573 (C.C.N.D.N.Y. 1892)..... 31
Christianburg Garment Co. v. *E.E.O.C.*, 434 U.S. 412 (1978)..... 16
Collins v. *Platts*, 112 Fed. Appx. 25 (Fed. Cir. 2004)..... 18
Computing Scale Co. v. *Toledo Computing Scale Co.*, 279 F. 648 (7th Cir. 1921)..... 22
Continental Paper Bag Co. v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908)..... 12, 13, 28, 29, 40, 44
Cook v. *Ernest*, 6 F. Cas. 385 (C.C.D. La. 1872) (No. 3,155)..... 30
Cooter & Gell v. *Hartmarx Corp.*, 496 U.S. 384 (1990)..... 20
Crown Die & Tool Co. v. *Nye Tool & Machine Works*, 261 U.S. 24 (1923)..... 46

TABLE OF AUTHORITIES—Continued

Page(s)

Dawson Chemical Co. v. *Rohm & Haas Co.*, 448 U.S. 176 (1980) 46
Draper Co. v. *American Loom Co.*, 161 F. 728 (1st Cir. 1908) 25
Electric Smelting & Aluminum Co. v. *Carborundum Co.*, 189 F. 710 (C.C.W.D. Pa. 1900) 23, 25
EPA v. *Environmental Waste Control, Inc.*, 917 F.2d 327 (7th Cir. 1990 (same) 35
Ex parte Wood, 22 U.S. 603 (1824) 15
Foster v. *American Machine & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) 24
Fuji Photo Film Co. v. *Jazz Photo Corp.*, 391 F.3d 1368 (Fed. Cir. 2005) 18, 19
Fuller v. *Berger*, 120 F. 274 (7th Cir. 1903) 29
Gasser Chair Co. v. *Infanti Chair Manufacturing Corp.*, 60 F.3d 770 (Fed. Cir. 1995) 43
Georgia-Pacific Corp. v. *United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd sub nom. Georgia-Pacific Corp.* v. *U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2d Cir. 1971) 31
Grain Processing Corp. v. *American Maize-Products Co.*, 185 F.3d 1341 (Fed. Cir. 1999) 31
Grant v. *Raymond*, 31 U.S. 218 (1832) 21
Hartford-Empire Co. v. *United States*, 323 U.S. 386 (1945) 46
Hartley Pen Co. v. *Lindy Pen Co.*, 102 U.S.P.Q. 151 (1954) 30
High Tech Medical Instrumentation, Inc. v. *New Image Industries, Inc.*, 49 F.3d 1551 (Fed. Cir. 1995) 36, 42
Hughes Tool Co. v. *Owen*, 123 F.2d 950 (5th Cir. 1941) 31
IBP, Inc. v. *Alvarez*, 126 S. Ct. 514 (2005) 45
Indiana Manufacturing Co. v. *J.I. Case Threshing Machine Co.*, 154 F. 365 (7th Cir. 1907) 23

TABLE OF AUTHORITIES—Continued

Page(s)

Inline Connection Corp. v. *Atlantech Online, Inc.*, 85 Fed. Appx. 767 (Fed. Cir. 2004) 18
International Rectifier Corp. v. *IXYS Corp.*, 383 F.3d 1312 (Fed. Cir. 2004) 18
Interactive Pictures Corp. v. *Infinite Pictures, Inc.*, 274 F.3d 1371 (Fed. Cir. 2001) 31
Johns Hopkins University v. *Cellpro, Inc.*, 152 F.3d 1342 (Fed. Cir. 1998) 18
Joy Technologies, Inc. v. *Flakt, Inc.*, 6 F.3d 770 (Fed. Cir. 1993) 18
Joy Technologies, Inc. v. *Flakt, Inc.*, No. 94-1178, 1994 WL 745884 (Fed. Cir. Mar. 15, 1994) 18
Kearns v. *Chrysler Corp.*, 32 F.3d 1541 (Fed. Cir. 1994) 17, 19
Kratze v. *Independent Order of Oddfellows*, 442 Mich. 136 (1993) 32
Lear Siegler, Inc. v. *Sealy Mattress Co.*, 846 F.2d 78, 1988 WL 24933 (Fed. Cir. Mar. 25, 1988) (table) 19
Lermer Germany GmbH v. *Lermer USA, Inc.*, 94 F.3d 1575 (Fed. Cir. 1996) 42
Livingston v. *Van Ingen*, 15 Fed. Cas. 697 (C.C.D.N.Y. 1811) (No. 8,420) 22
Livingston v. *Van Ingen*, 9 Johns. Rep. 507 (N.Y. Sup. Ct. 1813 Term) 24
Louis W. Epstein Family Partnership v. *KMART Corp.*, 13 F.3d 762 (3d Cir. 1994) 32
Magnavox Co. v. *Activision, Inc.*, 848 F.2d 1244, 1988 WL 44721 (Fed. Cir. 1988) (table) 19
Mallinckrodt, Inc. v. *Masimo Corp.*, 147 Fed. Appx. 158 (2005) 17, 19
Markman v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996) 4
Mitchell v. *DeMario Jewelry*, 361 U.S. 288 (1960) 16
Montgomery Ward & Co. v. *Clair*, 123 F.2d 878 (8th Cir. 1941) 23

TABLE OF AUTHORITIES—Continued

Page(s)

Motion Picture Patents Co. v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917) 46
Nerney v. *New York, New Hampshire & Hartford Railroad*, 83 F.2d 409 (2d Cir. 1946) 25
Newman v. *Piggie Park Enterprises*, 390 U.S. 400 (1968) 16
Odetics, Inc. v. *Storage Technology Corp.*, 185 F.3d 1259 (Fed. Cir. 1999) 17, 19
Ortho Pharmaceutical Corp. v. *Smith*, 959 F.2d 936 (Fed. Cir. 1992) 17, 18
Phillips v. *Crown Century Petroleum Corp.*, 602 F.2d 616 (4th Cir. 1979) 31
Richardson v. *Suzuki Motor Co.*, 868 F.2d 1226 (Fed. Cir. 1989) 19
Rite-Hite Corp. v. *Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995) 43, 46
Roche Products, Inc. v. *Bolar Pharmaceutical Co.*, 733 F.2d 858 (Fed. Cir. 1984) 18
Rocket Jewelry Box, Inc. v. *Quality International Packaging, Ltd.*, 90 Fed. Appx. 543 (Fed. Cir. 2004) 18
Rondeau v. *Mosinee Paper Corp.*, 422 U.S. 49 (1975) 16
Root v. *Railway Co.*, 105 U.S. 189 (1881) 22
Rumford Chemical Works v. *Hecker*, 20 F. Cas. 1347 (C.C.D.N.J. 1876) (No. 12,134) 23
Smith International v. *Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir. 1983) 38, 41
Special Equipment Co. v. *Coe*, 324 U.S. 370 (1945) 46
Stickle v. *Heublein*, 716 F.2d 1550 (Fed. Cir. 1983) 18
Symbol Technologies, Inc. v. *Lemelson Medical, Educational & Research Foundation*, 277 F.3d 1361 (Fed. Cir. 2002) 18
T.J. Smith & Nephew Ltd. v. *Consolidated Medical Equipment, Inc.*, 832 F.2d 646 (Fed. Cir. 1987) 36

TABLE OF AUTHORITIES—Continued

Page(s)

Tate Access Floors, Inc. v. *Maxcess Technologies, Inc.*, 222 F.3d 958 (Fed. Cir. 2000) 17, 19
Trans-World Manufacturing Corp. v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552 (Fed. Cir. 1984) 17
Union Carbide Chemicals & Plastics Technology Corp. v. *Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005) 28
United States v. *Burr*, 25 F. Cas. 30 (C.C.D. Va. 1807) (No. 14692D) 15
United States v. *Marine Shale Processors*, 81 F.3d 1329 (5th Cir. 1996) 32
United States v. *Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122 (D.C. Cir. 1981) 23, 49
United States Jaycees v. *Cedar Rapids Jaycees*, 794 F.2d 379 (8th Cir. 1986) 26
Vitamin Technologists, Inc. v. *Wisconsin Alumni Research Foundation*, 146 F.2d 941 (9th Cir. 1944) 24
W.L. Gore & Associates, Inc. v. *Garlock, Inc.*, 842 F.2d 1275 (Fed. Cir. 1988) 17, 18, 19
Walgreen Co. v. *Sara Creek Property Co.*, 966 F.2d 273 (7th Cir. 1992) 42
Walt Disney Co. v. *Powell*, 897 F.2d 565 (D.C. Cir. 1990) 26
Waterbury Trust Co. v. *GLD Realty Co.*, 199 A. 106 (Conn. 1906) 32
Weinberger v. *Romero-Barcelo*, 456 U.S. 305 (1982) 27, 28
Windsurfing International, Inc. v. *AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986) 17, 18, 32
Woodworth v. *Stone*, 30 F. Cas. 593 (C.C.D. Mass. 1845) 23
Xerox Corp. v. *3Com Corp.*, 61 Fed. Appx. 680, 685 (Fed. Cir. 2003) 18
Zenith Radio Corp. v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) 46

TABLE OF AUTHORITIES—Continued

Page(s)

CONSTITUTIONAL AND STATUTORY PROVISIONS

U.S. Const. art. I, § 8, cl. 8 ..... 20, 33
7 U.S.C. § 2404 33
15 U.S.C. § 1116 26
17 U.S.C. § 112 (1976) 26
17 U.S.C. § 502 26
28 U.S.C. § 1498 33
35 U.S.C. §§ 101-103 29
35 U.S.C. § 154 ..... 29, 38, 47
35 U.S.C. § 261 29
35 U.S.C. § 271 ..... 21, 36, 47, 48
35 U.S.C. § 273 39
35 U.S.C. § 283 26
35 U.S.C. § 287 33
35 U.S.C. § 302 9
35 U.S.C. § 305 9
42 U.S.C. § 1857h-6 33
42 U.S.C. § 2183 33
Patent Act of 1790, §§ 1-2, 1 Stat. 709 20
Patent Act of 1836, ch. 357, § 17, 5 Stat. 117 27
Patent Act of 1870, ch. 230, § 55, 16 Stat. 198 27
Patent Act of 1897, ch. 391, 29 Stat. 692-694, § 4921 (R.S. 4921) 27
Patent Act of 1952, ch. 950, § 1, 66 Stat. 812 27

RULES AND REGULATIONS

37 C.F.R. §§ 1.530, 1.535 9
Fed. R. Civ. P. 65(d) 18, 41

LEGISLATIVE MATERIALS

S. Rep. No. 82-1979, *reprinted in* 1952 U.S.C.C.A.N. 2394 27
Patent Law Reform: Injunctions and Damages, Hearing Before the Senate Comm. on the Judiciary, 109th Cong. (2005), *available at* http://judiciary.senate.gov 32

TABLE OF AUTHORITIES—Continued

Page(s)

H.R. 2795, 109th Cong. (2005) 48

OTHER AUTHORITIES

3 Areeda, Phillip E. & Hovenkamp, Herbert, *Antitrust Law* (2004) 31

Chisum, Donald S., et al., *Principles of Patent Law* (3d ed. 2004) 24

Curtis, George Ticknor, *A Treatise on the Law of Patents for Useful Inventions in the United States of America* (1849) 15, 23, 24

8 Deller, Anthony William, *Deller's Walker on Patents* (2d ed. 1973) 22

Dobbs, Dan B., *Dobbs on the Law of Remedies* (2d ed. 1993) 26, 27, 30, 32, 42

Dreyfuss, Rochelle Cooper, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. Rev. 1 (1989) 25, 48

eBay Form 10-Q (filed Oct. 25, 2005), *available at* http://investor.ebay.com/Edgar.cfm?DocType=Annual,Quarterly&Year= 8

2 Eden, Robert Henley, *A Compendium of the Law and Practice of Injunctions, and of Interlocutory Orders in the Nature of Injunctions* (3d ed. 1852) 24

Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition in Patent Law and Policy* (2003) 20, 37, 49

Fiss, Owen M. & Rendleman, Doug, *Injunctions* (2d ed. 1984) 41

Flinn, Patrick J., *Handbook of Intellectual Property Claims and Remedies* (Supp. 2005) 26

2 Goldstein, Paul, *Goldstein on Copyright* (3d ed. 2005) 26

Harmon, Robert L., *Patents and the Federal Circuit* (7th ed. 2005) 17, 18, 22

TABLE OF AUTHORITIES—Continued

Page(s)

Hemlock, Adam & Wu, Jennifer, *U.S Antitrust Implications for Patent Licensing*, 52 Fed. Lawyer 39 (2005) 37

Hindmarch, W.M., *A Treatise on the Law Relative to Patent Privileges for the Sole Use of Inventions: And the Practice of Obtaining Letters Patents for Inventions* (1847) 24

http://www.uspto.gov/web/offices/com/sol/og/2004/week15/patreq1.htm 40

Hulme, E. Wyndham, *On the Consideration of the Patent Grant, Past and Present*, 13 L.Q. Rev. 313 (1897) 21

Laycock, Douglas, *The Death of the Irreparable Injury Rule*, 103 Harv. L. Rev. 687 (1990) 30, 42

Laycock, Douglas, *Modern American Remedies: Cases and Materials* (3d ed. 2002) 28, 32

Macomber, William, *The Fixed Law of Patents as Established by the Supreme Court of the United States and the Nine Circuit Courts of Appeals* (1909) 22

Mann, Ronald, *Do Patents Facilitate Financing in the Software Industry?*, 83 Tex. L. Rev. 961 (2005) 48, 49

5 McCarthy, J. Thomas, *McCarthy on Trademarks and Unfair Competition* (2005) 26

Merges, Robert Patrick & Duffy, John Fitzgerald, *Patent Law and Policy: Cases and Materials* (3d ed. 2002) 24

Merges, Robert Patrick & Reynolds, Glenn Harlan, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. Legis. 45 (2000) 20

Moore, Kimberly A., et al., *Patent Litigation and Strategy* (2d ed. 2003) 9

TABLE OF AUTHORITIES—Continued

Page(s)

Moore, J.G., *Patent Office and Patent Laws: or, A Guide to Inventors and a Book of Reference for Judges, Lawyers, Magistrates and Others* (1855) 23
National Research Council, National Academies, *A Patent System for the 21st Century* (Stephen A. Merrill et al., eds., 2004) 37
4 Nimmer, Melville B. & Nimmer, David, *Nimmer on Copyright* (4th ed. 2005) 26
Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328 (1958) 22, 24
Phillips, Willard, *The Law of Patents for Inventions Including the Remedies and Legal Proceedings Relating to Patent Rights* (1837) 24
5 Pomeroy, John Norton & Pomeroy, John Norton, Jr., *Pomeroy's Equity Jurisprudence and Equitable Remedies* (4th ed. 1919) 32
Proceedings and Addresses: Celebration of the Beginning of the Second Century of the American Patent System, 1891 (U.S. Bicentennial Commemorative ed., 1990) 47
Restatement (Second) of Torts 26
Robinson, William C., *The Law of Patents for Useful Inventions* (1890) 22
Ross, Terence P., *Intellectual Property Law: Damages and Remedies* (2000) 22, 26, 32
Schacht, Wendy H. & Thomas, John R., *Patent Reform: Innovation Issues*, CRS Report for Congress (July 15, 2005) 48
Schwartz, Herbert F., Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Penn. L. Rev. 1025 (1964) 22, 24
Shapiro, Carl, *Patent System Reform: Economic Analysis and Critique*, Berkeley Tech. L.J. 1017 (2004) 39

TABLE OF AUTHORITIES—Continued

Page(s)

Simonds, William Edgar, *A Summary of the Law of Patents for Useful Inventions with Forms* (1883) 23

Stedman, John C., *Invention and Public Policy*, 12 Law & Contemp. Probs. 649 (1947) 50

Story, Joseph, *Commentaries on Equity Jurisprudence as Administered in England and America* (12th ed. 1877) 31, 32

U.S. Patent and Trademark Office, Ex Parte *Reexamination Filing Data—March 31, 2005* 9

Valach, Anthony P., Jr., *TRIPS: Protecting the Rights of Patent Holders and Addressing Public Health Issues in Developing Countries*, 4 Chi.-Kent J. Intell. Prop. 156 (2005) 47

Walterscheid, Edward C., *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1798-1836* (1998) 23

Waters, Richard, Financial Times UK (Jan. 21. 2005) 29

STATEMENT

A jury and two lower courts concluded that petitioners eBay and Half.com willfully infringed respondent MercExchange's patent, U.S. Patent No. 5,845,265 ("the '265 patent") and that the patent is valid. Petitioners did not seek certiorari on any issue of validity or infringement, and so no such question is properly before this Court. Nonetheless, petitioners extensively argue, or at least strongly imply, based on a decidedly one-sided recitation of the facts, that the jury and lower courts reached mistaken conclusions on those issues. *See* Br. 5-9. Accordingly, it is necessary to provide the Court with a statement of the facts that is consistent with the jury's verdict and lower courts' conclusions.[1]

1. Thomas Woolston, an electrical engineer and patent attorney, and the founder of MercExchange, L.L.C. (JA 592-593), filed his first patent application involving online marketing technology in April 1995, several months before eBay came into existence. JA 386, 400, 489-490. The family of patents that issued from this parent application includes the only patent of concern here, the '265 patent. JA 386, 400.[2]

The '265 patent describes an "electronic market" for the sale of goods. JA 386-445, 706-707. In such a market, sellers

---

[1] Petitioners also devote extensive space (Br. 28-41) to arguing that, had the Federal Circuit applied the correct legal standard, it would have affirmed the district court's denial of a permanent injunction. But petitioners did not seek certiorari on that question either; they sought review only on whether the Federal Circuit erred as a matter of law in applying a supposedly "automatic" or "per se" rule requiring issuance of a permanent injunction upon a finding of infringement. Pet. 3, 13. Even on that question, petitioners have shifted position. No longer arguing that the Federal Circuit applies an "automatic" rule, they now describe the Federal Circuit's rule as "*near*-automatic." Br. 18 (emphasis added).

[2] The '265 application was a continuation-in-part of a parent application filed on April 26, 1995. JA 386, 400. The '265 patent application was filed on November 7, 1995, thus the relevant "priority date" (or date of invention) of the '265 patent is no later than November 7, 1995. JA 386, 400; Tr. 319. U.S. Patent Nos. 6,085,176 ("the '176 patent") and 6,202,051 ("the '051 patent"), other patents in the '265 patent's family that were involved in the litigation below, are not at issue here.

can display their wares by posting pictures, descriptions, and prices of goods on a computer network, such as the Internet. A prospective buyer can electronically browse the goods on sale by connecting to the network. After selecting an item, the buyer can complete the purchase electronically, with the "electronic market" mediating the transaction, including payment, on the buyer's behalf. The seller is then notified that the buyer has paid for the item and that the transaction is final. A central authority within the market can police the obligations and performance of sellers and buyers over time, thereby promoting trust among participants. JA 400-402, 406-407.

The '265 patent's electronic market was a novel improvement over previous approaches to selling used goods or collectibles, such as specialty shops, electronic bulletin boards, and television shopping channels. JA 400. The electronic market makes an extensive and geographically dispersed inventory of goods easily accessible to a broad purchasing public. And because the entire transaction is mediated electronically, buyers and sellers can transfer ownership quickly and confidently.

The innovations claimed by the '265 patent are specifically directed to two problems: providing means to identify and track goods offered and sold in an electronic market, and providing means to mediate the transfer of funds and ownership associated with an electronic sale. The first problem—that of identification and tracking—was solved by using a combination of devices, first, to produce for each item a digital image, a textual description, and a "data record" with a tracking number; and, then, to make the item's image and description available over a network. The second problem—that of mediating payment and obligating the seller to perform—was solved, in part, by using a "transaction processor" to receive purchase information (*e.g.*, information specifying the item purchased, the purchaser's identity, and the credit account to be debited), to verify that information, to notify the seller of payment, and to modify the "data record" to reflect the sale. JA 386, 400-412; *see also* Pet. App. 4a-5a.

2. Woolston's goal was to build an operating business that would practice his inventions. He founded MercExchange and assigned his patent rights to it. JA 70, 1028. He developed a business plan, sought capital to commercialize his patents, and hired computer programmers to write software to put his inventions into practice. JA 577-578, 597, 624-626, 630-632, 730-732. He also sought to exploit his inventions through licensing. JA 513-541, 598-610, 636-640.

By the late 1990s, eBay, like MercExchange, was looking for ways to offer goods for sale with the entire sales transaction, including the mediation of payment, performed electronically. eBay knew of MercExchange's '265 patent and its technique for conducting electronic sales. Indeed, from October 1998 through February 2002, eBay repeatedly acknowledged the '265 patent's significance by filing 24 patent applications citing the '265 patent as prior art. JA 450-453. Furthermore, the Patent and Trademark Office rejected at least one patent application of Half.com (a wholly-owned affiliate of eBay) as completely anticipated by MercExchange's '265 patent. JA 951.

eBay further acknowledged the '265 patent's significance by actively seeking to purchase MercExchange's technology. In June 2000, eBay approached MercExchange to discuss eBay's interest in buying MercExchange's patent portfolio. JA 446-447, 606-609, 676-677. MercExchange was "very excited" at the prospect of entering into a relationship with eBay (JA 607) because MercExchange was "contemplating relationships that capitalize MercExchange into an operating company" (JA 677). eBay made clear, however, that it was interested only in buying the patents (JA 607), rather than entering into any more extended relationship.[3]

---

[3] Contrary to petitioners' suggestion (Br. 5), MercExchange did not meet with eBay "under [a] guise." MercExchange wanted to develop a relationship with eBay in order to build MercExchange's fledgling business. JA 607. But eBay "didn't want any relationship" with MercExchange; eBay "just wanted to buy the patent." *Id.*

When negotiations for the sale of MercExchange's patents broke down, eBay began using MercExchange's technology without authorization. By the fall of 2000—only months after eBay had unsuccessfully tried to buy MercExchange's technology—eBay had incorporated into its website a fixed-price sales capability using the "electronic market" system of MercExchange's '265 patent for the purchase and sale of goods and the transfer of funds in an electronic marketplace. JA 87-89, 327-329, 945.

At the same time that eBay began using MercExchange's technology, it was becoming clear that lack of capital would prevent MercExchange from directly commercializing its inventions. JA 637. With no choice but to end its efforts at direct commercialization, MercExchange shifted its remaining resources to building a licensing program. JA 732. eBay's willful infringement of MercExchange's patents made licensing difficult, however, because potential licensees recognized that the '265 patent had little value if MercExchange could not stop others from infringing. JA 732-733, 736. MercExchange's licensee AutoTrader made its payment of royalties contingent on MercExchange's successfully bringing a halt to eBay's infringement. JA 493-512.

3. Frustrated in its licensing efforts by eBay's willful infringement, MercExchange filed suit in September 2001, alleging that eBay, Half.com, and ReturnBuy (a seller of goods on eBay's online marketplace), were infringing MercExchange's patents. JA 68-86. In its initial and first amended complaints, MercExchange sought permanent injunctions against the infringement of its patents. JA 84; C.A.J.A. A315.

Before trial, the district court held a hearing to determine the scope of MercExchange's patents. *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996). After that hearing, the court interpreted the "market for goods" or "market apparatus" required by the claims of the '265 patent to comprise a "trusted network" or "trusted system" where

"items or goods may be bought and sold." C.A.J.A. A81; A90-91.[4] Contrary to petitioners' arguments, the district court did not construe the claims of the '265 patent to require that, in completing a sale, title be transferred pursuant to any particular steps or legal formalities. *See* Pet. App. 9a. Rather, the court concluded that ownership is transferred when payment for an item clears, the data record for the item is modified to reflect payment, and the seller is notified. C.A.J.A. A95-97; Pet. App. 7a.

The court presided over a five-week jury trial to determine whether MercExchange's patents were valid and infringed.[5] MercExchange presented evidence that petitioners practiced each and every element of the '265 patent's asserted claims. Pet. App. 32a. In particular, MercExchange presented "a great amount of evidence" to prove that petitioners' used a "trusted network," including evidence that petitioners used various "trust-enhancements" in their system, such as "escrow services, conflict resolution services, insurance, payment intermediaries, authentication systems, feedback forum[s], and the policing of the system." *Id.* at 33a, 39a. MercExchange also presented evidence that petitioners' system transfers ownership in the manner described by the '265 patent—*i.e.*, by modifying an item's data record to reflect that payment has been made. *Id.* at 9a.

With respect to willfulness, MercExchange presented undisputed evidence that petitioners, despite their knowledge of the '265 patent, took no steps to avoid or to end their infringement. JA 446-447, 450-453; Pet. App. 35a. At trial,

---

[4] The court did not find it necessary to elaborate on "what a trusted system must have versus what a person-to-person system encompasses." Pet. App. 39a. Nor did it rule that petitioners' system uses a "trusted network." Whether petitioners' systems use a "trusted network" was a question decided by the jury. *Id.* at 33a, 39a.

[5] The case went to the jury on both the '265 and '176 patents. Before trial, the court granted eBay summary judgment that certain claims of the '051 patent were invalid for lack of an adequate written description. *See* Pet. App. 2a. The Federal Circuit reversed that decision after finding that summary judgment was not warranted. *Id.* at 23a.

petitioners themselves asserted that they could have implemented—but had never tried to implement—a design-around that would have made their system non-infringing at a cost of only $8,000 and would not have caused any degradation in system performance. JA 862-863, 865; Pet. App. 35a.

The jury found that eBay and Half.com had willfully infringed the '265 patent. Pet. App. 29a, 73a.[6] Specifically, the jury found by clear and convincing evidence that petitioners were aware of the '265 patent and therefore had a duty to avoid infringing it, but that petitioners had failed to act in good faith to avoid such infringement. Tr. 3519, 3546-3547. The jury awarded damages to MercExchange for petitioners' past direct infringement of the '265 patent in the amount of $25 million. Pet. App. 73a.

4. After trial, petitioners moved for judgment as a matter of law, arguing that the district court should overturn the jury's verdict that the '265 patent was valid and infringed. The court rejected petitioners' arguments. With respect to validity, it ruled that the jury was "entirely reasonable" in rejecting petitioners' argument that prior art invalidated the '265 patent's claims. *Id.* at 40a-41a. The court disagreed with petitioners' non-infringement arguments as well, stressing that all of petitioners' arguments regarding whether their systems included elements required under the '265 patent had been made to the jury, which had reasonably rejected them. *Id.* at 39a-40a.

The district court also upheld the jury's finding of willful infringement. Consistent with the evidence at trial, the court observed that petitioners unquestionably had notice of respondent's patents and nonetheless "failed to obtain an opinion of counsel and conduct a patent clearance investigation." *Id.* at 35a. Petitioners' failure to implement a design-around that, they alleged, would have avoided infringement

---

[6] The jury also found that eBay had willfully infringed the '176 patent. The Federal Circuit reversed that verdict after concluding that the '176 patent was invalid. *Id.* at 3a.

of the '265 patent at a cost of less than $10,000 "also weigh[ed] against them." *Id.*[7]

5. Having established that the '265 patent was valid and infringed, MercExchange moved for a permanent injunction to prevent further infringement. JA 84; Pet. App. 52a. The district court acknowledged that an injunction should normally issue once infringement has been established. Pet. App. 3a, 52a-59a. Nonetheless, the court denied MercExchange's motion, observing that the grant or denial of injunctive relief is not "automatic" but remains within the discretion of the trial judge. *Id.* at 52a. The court identified four factors governing the appropriateness of injunctive relief: whether denial of an injunction would irreparably harm MercExchange, whether MercExchange had an adequate legal remedy, the public interest, and the balance of hardships between MercExchange and petitioners. *Id.* at 53a.

As for the first factor—the existence of irreparable harm to the patent holder—the court noted that such harm is properly "presumed" where, "as here, validity and continuing infringement have been clearly established." *Id.* at 53a. The court nonetheless found three reasons to rule that, in this case, denial of an injunction would not irreparably harm MercExchange: MercExchange's "willingness to license its patents, its lack of commercial activity in practicing its patents, and its comments to the media" that its goal was not to put eBay out of business but rather to be compensated for eBay's infringement. *Id.* at 55a. The court found "additional weight" for its conclusion in MercExchange's failure to move for a preliminary injunction. *Id.*

---

[7] The court observed that its earlier statement that "the sufficiency of the evidence of willfulness was 'a close call'"—a statement made in response to a motion for judgment as a matter of law *before* the case was submitted to the jury—was "of no consequence" in the wake of the jury's subsequent verdict that the evidence of willfulness was "clear and convincing" and the court's conclusion that the evidence of willfulness was "sufficient" to sustain that verdict. *Id.* at 35a. Petitioners quote the earlier statement (Br. 7), without mentioning the court's later determination that it was "of no consequence" to petitioners' liability.

The second factor identified by the court was whether the plaintiff had an adequate remedy at law. *Id.* at 55a-56a. Although the court acknowledged that "many cases state that monetary damages are typically inadequate," it found that "this is certainly an atypical case," because MercExchange "ha[d] licensed its patents to others in the past and ha[d] indicated its willingness to license the patents to the defendants in this case." *Id.* at 56a.

Regarding the third factor, the public interest, the district court observed that it was the "norm" that the public's interest in maintaining the patent system's integrity favors the patentee. The court nonetheless concluded that, in this case, the public interest factor was, in effect, evenly balanced. *Id.* at 57a-58a. The court identified an allegedly "growing concern" over "business method patents"—patents directed at ways of conducting commercial business—based on legislation introduced in 2001 that, if enacted, would have eliminated the presumption of validity for such patents, and on the PTO's decision to give special scrutiny to applications for business method patents. *Id.* at 57a. Moreover, according to the court, the public interest in protecting the integrity of the patent system was further diminished because "the patentee does not practice its patents." *Id.*

Finally, the district court concluded that the balance of hardships tipped "slightly" in eBay's favor. Pet. App. 58a. The court concluded this despite eBay's persistent claims that it could easily and inexpensively design around MercExchange's patents (*see* pp. 5-6, *supra*), and despite eBay's failure to identify any harm that an injunction would cause beyond potential contempt hearings for eBay's future continued infringement (JA 982, 1009-1018).[8]

The court explained its conclusion that the balance of hardships favored eBay by remarking that any harm to

---

[8] eBay continues to tell the public that "any injunction that might be issued [in this case] will not have any impact on [eBay's] business." *See* eBay Form 10-Q (filed Oct. 25, 2005), *available at* http://investor.ebay.com/Edgar.cfm?DocType=Annual,Quarterly&Year=.

MercExchange caused by eBay's continued infringement could be adequately compensated by damages, given that MercExchange supposedly "exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." Pet. App. 58a. The court also noted that it would be "more inclined" to award enhanced damages for post-verdict infringement. *Id.* at 59a.[9] Were an injunction to issue, however, the court "envision[ed] contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine" if eBay were still infringing. *Id.* at 59a.

6. Petitioners appealed the denial of their motions for judgment as a matter of law and for a new trial on the '265 patent.[10] In a unanimous decision authored by Judge Bryson, the Federal Circuit affirmed the jury's verdict and the

---

[9] The district court had denied MercExchange's requests for treble damages and attorney's fees based on petitioners' willfully infringing acts. *See* Pet. App. 74a. The Federal Circuit upheld those decisions. *Id.* at 3a.

[10] While the appeal was pending, eBay requested that the PTO reexamine the '265 patent. Reexamination is a process by which the PTO reconsiders the patentability of a patent's claims without any presumption of validity. Reexaminations can be requested early in litigation (35 U.S.C. § 302), thus giving a district court the opportunity to stay judicial proceedings pending a final determination in reexamination. *See* Kimberly A. Moore et al., *Patent Litigation and Strategy* 770 (2d ed. 2003) ("Courts are often willing to stay a litigation, especially in early stages, while the PTO conducts reexamination proceedings."). A third-party requester can respond to a patent holder's statement in response to a reexamination order (if the patent holder makes such a statement), but *ex parte* reexamination then proceeds much as original examination does, with the PTO issuing "office actions" and the patent holder responding to those actions without further third-party involvement. *See* 35 U.S.C. § 305, 37 C.F.R. §§ 1.530, 1.535. Historically, approximately 90% of requests for *ex parte* reexamination have been granted, but only about 10% of such reexaminations have resulted in cancellation of all of a patent's claims. U.S. Patent and Trademark Office, Ex Parte *Reexamination Filing Data—March 31, 2005*. About 90% of *ex parte* reexaminations have ended with confirmation of a patent's validity, and in more than 25% of these cases, *ex parte* reexamination has ended without any alteration to the originally issued claims. *Id.*

district court's judgment that the '265 patent was valid and infringed. Pet. App. 3a, 9a-12a. On the question of infringement, the Federal Circuit rejected petitioners' central argument that "there was no substantial evidence from which a reasonable jury could conclude that eBay's system 'transfer[red] the ownership' of a good for sale" as required by the '265 patent. *Id.* at 5a.[11] Hence, for the third time—on top of the jury's verdict and district court's rulings—it was determined that the '265 patent was valid and infringed.

7. MercExchange cross-appealed from the district court's denial of its motion for a permanent injunction (Pet. App. 3a, 26a), arguing that "[t]he district court abused its discretion by refusing to enter a permanent injunction." Resp. C.A. Br. 13; *see also id.* at 63-65.

The Federal Circuit reversed the district court and ruled that MercExchange was entitled to a permanent injunction against further infringement by petitioners. Pet. App. 3a. The Federal Circuit observed that the "essence" of the patent right is the right to exclude. *Id.* at 26a. Therefore, the court concluded, the "general rule" is that, once validity and infringement have been adjudged in the patentee's

---

[11] The Federal Circuit rejected petitioners' argument that legal ownership must be transferred in a particular way under the '265 patent, observing that the '265 patent's claims "do not require that title be transferred pursuant to any particular steps or legal formalities." *Id.* at 9a. As the Federal Circuit explained, the '265 patent's specification "makes clear that the modification of the data record reflects that a buyer has paid for the good, and it is the payment for the good, accompanied by the data record modification, that accomplishes the transfer of legal ownership." *Id.* at 7a. Moreover, this transfer takes place in the context of a "trusted network," and this aspect "of the invention is part of what allows ownership to pass upon modification of the data record." *Id.* at 7a-8a. Petitioners thus are incorrect in suggesting that a finding of infringement was precluded by the district court's claim construction. *See* Br. 8 (claiming that MercExchange had argued to the jury that "modification of a data record could constitute a transfer of 'legal ownership,' despite the fact that the issue was resolved against MercExchange in the *Markman* rulings"). As the Federal Circuit ruled, the "district court's statement in its *Markman* order does not say" what petitioners claim it says. Pet. App. 9a.

favor, a permanent injunction should issue. *Id.* The court noted that district courts have discretion to deny such relief, and that courts have done so to protect the public interest. *Id.* A court may, for instance, decline to enter an injunction when "a patentee's failure to practice the invention frustrates an important public need for the invention." *Id.* One such example, the Federal Circuit observed, would be the need to use an invention to protect the public health. *Id.*

The Federal Circuit concluded, however, that the district court had not articulated any persuasive reason to exercise its discretion to deny a permanent injunction. First, the court concluded that a generalized concern over the desirability of business method patents was "not the type of important public need" that could justify the unusual step of denying injunctive relief. *Id.* at 26a. Second, the court found the prospect of contempt proceedings to be an insufficient basis for denying such relief. *Id.* at 26a-27a. The court noted that, in patent cases, continuing disputes after final judgment are not unusual, and that the absence of an injunction here would not prevent such disputes but instead only channel them into successive infringement actions. *Id.* at 27a.

The Federal Circuit also rejected the district court's reliance on MercExchange's willingness to license as a basis for denying a permanent injunction. *Id.* As the Federal Circuit explained, the right to exclude granted by a patent is not reserved for those who directly practice, rather than license, their patented inventions; the appropriate remedy to protect the right should therefore be available to both. *Id.* Finally, the court rejected the district court's conclusion that MercExchange's failure to move for a preliminary injunction weighed against granting a permanent injunction, noting that these two types of injunctions "are distinct forms of equitable relief that have entirely different prerequisites and serve entirely different purposes." *Id.* at 27a-28a.

8. Petitioners sought review in this Court, contending that the Federal Circuit erred in applying an "automatic" or "per se" rule requiring that a permanent injunction issue once a patent has been found valid and infringed. Pet. 3, 13.

Petitioners acknowledged, however, that permanent injunctions should "typically" issue under such circumstances. Pet. Reply 1. Petitioners did not seek review of any issue relating to validity or infringement. The Court granted review, and also directed the parties to address whether the Court should reconsider its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

SUMMARY OF ARGUMENT

I. The Federal Circuit applied the correct legal standard in reviewing the district court's decision. Contrary to petitioners' mischaracterizations, the "general rule" described by the Federal Circuit is not an "automatic" or "near-automatic" rule, nor is it a rule that ignores the district court's discretion to grant or deny an injunction. The Federal Circuit has consistently recognized that discretion but has also recognized its duty to police that discretion's exercise. In so doing, the Federal Circuit has affirmed denials of injunctions or vacated grants of injunctions in more than a dozen cases.

The "general rule" recognized by the Federal Circuit is entirely consistent with long historical practice. The first patent statute reflected the basic bargain underlying patent law that remains in effect to this day—a statutory right to exclude in exchange for disclosure of an invention. To enforce the terms of this bargain, the law, since at least the early nineteenth century, has uniformly been that, absent special circumstances, a permanent injunction will issue once patent infringement is found.

This "general rule" flows ineluctably from the nature of the patent right and the application of traditional principles of equity. It is therefore unsurprising that such a rule is also consistent with the general availability of permanent injunctions for other intellectual property rights, as well as analogous rights in property. The patent holder's right to exclude can be protected only by preventing others from encroaching on that right; thus, once a patent has been found valid and infringed, the patent holder will in most cases have ir-

refutably shown that it will suffer irreparable harm in the absence of an injunction. Only in rare cases will any balance of hardships or the public interest favor the adjudged infringer; in most cases those factors will strongly favor the patent holder. In other words, the discretionary application of traditional equity principles will, as a "general rule," result in the issuance of a permanent injunction once infringement and validity have been established.

II. The Federal Circuit correctly ruled that the district court abused its discretion in denying a permanent injunction here, because the reasons relied upon by the district court were either illogical, unreasonable, or irrelevant to the pertinent equitable factors. "Willingness to license" one's patent cannot estop the patent holder from asserting its right to exclude third parties, and the district court's contrary rule is not only unsupported by law but (by discouraging licensing) contrary to interests in promoting innovation and competition. The district court's asserted concern over business method patents is similarly illogical and irrelevant. MercExchange's patent was issued by the PTO and then found by a jury to have satisfied the statutory requirements for validity. These determinations cannot be overcome by reference to legislation Congress has not enacted, or special PTO procedures for reviewing business method patents.

The district court also erred in relying on MercExchange's "non-practice" of the invention as a ground to deny injunctive relief. Under this Court's precedent, licensing does not constitute "non-use," but even if it did, non-use cannot be a basis for denying a permanent injunction. *See Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908). Moreover, it is fundamentally contrary to equity to hold that the threat of contempt proceedings for violating an injunction should weigh in favor of an adjudged infringer—particularly willful infringers like petitioners, who have claimed all along to be able to implement, easily and inexpensively, a non-infringing way of operating their business. Finally, as the Federal Circuit correctly held, failure to move for a preliminary injunction is simply irrelevant

to whether a permanent injunction should issue after infringement and validity are found. In short, there are no legitimate interests, public or otherwise, that could justify denying a permanent injunction against petitioners.

III. This case provides no occasion for this Court to revisit its precedents regarding the standard for entering permanent injunctions in patent cases. This Court made clear in *Continental Paper Bag* that equitable relief is available even where the patent holder has failed *either* to use the invention directly *or* to license it to others. This case does not implicate that rule because it does not involve any such complete "non-use." Nonetheless, to the extent the district court based its denial of injunctive relief on MercExchange's failure to commercialize its invention directly, a decision to reverse the Federal Circuit would require this Court to disavow the central reasoning of *Continental Paper Bag*. It should not do so.

There is no good reason for this Court to depart from *Continental Paper Bag* or the almost 100 years of precedent that has followed it. *Stare decisis* has particular force here, because *Continental Paper Bag* interpreted a statutory provision that has since been reenacted without substantive change. Moreover, as both this Court and Congress's actions have repeatedly reaffirmed, Congress has chosen to "promote progress" not by imposing a use requirement but by granting patent holders a statutory "right to exclude" in return for disclosure of an invention. Petitioners and their *amici* have not provided sufficient ground for this Court to question the policy decisions Congress has made. Virtually all patent holders are "non-practicing" to a degree, and even if it were possible to distinguish between "good" and "bad" non-practicing entities, such distinctions not only have little, if any, basis in the facts of this case, but also involve policy judgments more appropriately left to Congress.

ARGUMENT

I. THE FEDERAL CIRCUIT APPLIED THE CORRECT LEGAL STANDARD IN REVIEWING THE DISTRICT COURT'S DENIAL OF A PERMANENT INJUNCTION

A. A "General Rule" Favoring Permanent Injunctions Is Fully Consistent With Traditional Equity Principles

1. Petitioners expend great effort attempting to show that the Federal Circuit applies, and applied in this case, an "automatic" or "near-automatic" rule that a permanent injunction must issue when a valid patent has been found to be infringed. This characterization of the Federal Circuit's case law, as well as that of its decision here, is inaccurate. The Federal Circuit did state below—as it has stated before—that "the *general* rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (emphasis added). But a "general" rule is not an "automatic" rule, and a general rule as to how a court's equitable discretion should be applied can be entirely consistent with traditional equity principles—especially where, as here, the rule has a pedigree of great antiquity, *see* pp. 20-22, *infra*. As Chief Justice Marshall observed with respect to a "motion to the discretion of the court" to issue a subpoena duces tecum, such a motion "is a motion, not to [the court's] inclination, but to its judgment; and its judgment is to be guided by sound legal principles." *United States* v. *Burr*, 25 F. Cas. 30, 35 (C.C.D. Va. 1807) (No. 14692D).[12]

Even where Congress has explicitly committed a remedy to the district courts' equitable discretion, the nature of the rights at stake and the statutorily expressed public interest can mean that certain equitable remedies should be awarded "in all but very unusual circumstances." *Albemarle*

---

[12] It has long been recognized that discretion according to "principles of courts of equity" is "not a wholly unregulated discretion," but instead one "guided by certain well settled rules." George Ticknor Curtis, *A Treatise on the Law of Patents for Useful Inventions in the United States of America* § 315, at 359-360 (1849) ("Curtis (1849)"); *see also Ex parte Wood*, 22 U.S. 603, 608 (1824) (Story, J.).

Paper Co. v. *Moody*, 422 U.S. 405, 415 (1975). Thus, in *Albemarle*, the Court concluded that, in light of the "purpose of Title VII [of the Civil Rights Act of 1964] to make persons whole for injuries suffered on account of unlawful employment discrimination," as well as "the historic purpose of equity to secure complete justice," courts should generally exercise their equitable powers to award backpay to victims of discrimination, and may decline to do so only for reasons that, "if applied generally, would not frustrate the central statutory purposes" of the law. *See id.* at 418, 421. Similarly, in *Mitchell* v. *DeMario Jewelry*, 361 U.S. 288, 292 (1960), the Court concluded that the Fair Labor Standards Act of 1938 vested the district court with the "historic power of equity" to redress violations, and stressed that the "statutory purposes [leave] little room for the exercise of discretion not to order reimbursement." This Court has also ruled that, under the civil rights laws' statutory provisions for the discretionary award of attorney's fees, prevailing plaintiffs generally are to be awarded their fees, whereas prevailing defendants generally are not.[13] In sum, a "general rule" that a particular equitable remedy is necessary to effectuate a congressional purpose is entirely consistent with congressional authorization for courts to exercise equitable powers.

The cases cited by petitioners only support propositions that are inapplicable here—for example, the rule that irreparable harm cannot be presumed from the bare violation of a statute where none of the harms the statute was designed to prevent have occurred. *See, e.g.*, *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 59 (1975); *Amoco Prod. Co.* v. *Village of Gambell*, 480 U.S. 531, 541, 544-545 (1987). That

---

[13] *See Newman* v. *Piggie Park Enters.*, 390 U.S. 400, 402 (1968) (holding that, although federal civil rights laws give district courts discretion to award attorney's fees, a prevailing plaintiff "should ordinarily recover attorney fees unless special circumstances would render an award unjust"); *Christiansburg Garment Co.* v. *E.E.O.C.*, 434 U.S. 412, 422 (1978) (holding that a civil rights plaintiff should not be forced to pay a prevailing defendant's attorney's fees "unless a court finds that his claim was frivolous").

rule does not apply where a patent has been found to be valid and infringed. There, the harm to the patent holder—violation of the right to exclude—is precisely that which the Patent Act seeks to prevent. A presumption of irreparable harm follows from violation of this statutory right, just as it does in other areas of intellectual property, *see* p. 26, *infra*.

-2. The "general" rule recognized by the Federal Circuit does not "automatically" require that a permanent injunction issue in every case in which a valid patent has been infringed. Nor does that court apply *de novo* review to a decision to grant or deny an injunction. The Federal Circuit has long held that district court decisions regarding injunctive relief are subject to abuse-of-discretion review only.[14] Indeed, in *Kearns* v. *Chrysler Corp.*, 32 F.3d 1541, 1551 (Fed. Cir. 1994), the Federal Circuit highlighted precisely the point petitioners now claim that court ignores—namely, that 35 U.S.C. § 283 says that a district court "may" exercise its discretion to grant an injunction, not that it "shall" or "must" do so. Similarly, in *Odetics, Inc.* v. *Storage Technology Corp.*, 185 F.3d 1259, 1272 (Fed. Cir. 1999), the Federal Circuit made clear that, "while we have stated the general rule that an injunction should follow an infringement verdict, we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction." The Federal Circuit has consistently reaffirmed these

---

[14] *See, e.g., Mallinckrodt, Inc.* v. *Masimo Corp.*, 147 Fed. Appx. 158, 177 (Fed. Cir. 2005) (non-precedential); *Tate Access Floors, Inc.* v. *Maxcess Techs., Inc.*, 222 F.3d 958, 964 (Fed. Cir. 2000); *Odetics, Inc.* v. *Storage Tech. Corp.*, 185 F.3d 1259, 1272 (Fed. Cir. 1999); *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995); *Ortho Pharm. Corp.* v. *Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992); *W.L. Gore & Assocs., Inc.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988); *Amstar Corp.* v. *Envirotech Corp.*, 823 F.2d 1538, 1549 (Fed. Cir. 1987); *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986); *Trans-World Mfg. Corp.* v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564 (Fed. Cir. 1984); *see also* Robert L. Harmon, *Patents And The Federal Circuit* § 16.1(c), at 919 (7th ed. 2005) (citing circuit precedent).

holdings,[15] which the decision below properly acknowledged (Pet. App. 26a).

In recognition of the fact that the decision to grant or to deny an injunction is not mechanical, and must be made on the facts of the particular case,[16] the Federal Circuit has at least partially vacated, or required narrowing of, permanent injunctions in several patent cases,[17] and has affirmed deni-

---

[15] *See, e.g., Mallinckrodt*, 147 Fed. Appx. at 177; *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1380-1381 (Fed. Cir. 2005); *Xerox Corp.* v. *3Com Corp.*, 61 Fed. Appx. 680, 685 (Fed. Cir. 2003); *Carborundum*, 72 F.3d at 880-881, 882 n.9; *Joy Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993); *Ortho Pharm. Corp.*, 959 F.2d at 945; *W.L. Gore & Assocs.*, 842 F.2d at 1281; *Amstar*, 823 F.2d at 1549; *Windsurfing Int'l*, 782 F.2d at 1002; *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865-866 (Fed. Cir. 1984); *see also* Harmon, *supra* n.14, § 16.1(a), at 915 n.12.

[16] In partial answer to *amici*'s concerns about potential abuse of the process for obtaining patents (*see, e.g.*, Br. of *Amicus* Yahoo!, Inc. 5-11), the Federal Circuit has also held that, if a patent applicant causes undue delays in that process, prosecution laches may make the resulting patent unenforceable. *Symbol Techs., Inc.* v. *Lemelson Med. Educ. & Research Found.*, 277 F.3d 1361, 1363 (Fed. Cir. 2002).

[17] On at least four occasions, the Federal Circuit has vacated a permanent injunction for failure to comply with Fed. R. Civ. P. 65(d), which requires, in part, that "[e]very order granting an injunction" "be specific in terms" and "describe in reasonable detail . . . the act or acts sought to be restrained." *Collins* v. *Platts*, 112 Fed. Appx. 25, 26 (Fed. Cir. 2004); *International Rectifier Corp.* v. *IXYS Corp.*, 383 F.3d 1312, 1316, 1319 (Fed. Cir. 2004); *Rocket Jewelry Box, Inc.* v. *Quality Int'l Packaging, Ltd.*, 90 Fed. Appx. 543, 548 (Fed. Cir. 2004); *Additive Controls & Measurement Sys., Inc.* v. *Flowdata, Inc.*, 986 F.2d 476, 479-480 (Fed. Cir. 1993). On at least two occasions, the Federal Circuit has at least partially vacated an injunction for violating § 283 by going beyond prohibiting infringing activity. *Johns Hopkins Univ.* v. *Cellpro, Inc.*, 152 F.3d 1342, 1365-1367 (Fed. Cir. 1998); *Joy Techs.*, 6 F.3d at 776-777. Other bases for vacating or modifying injunctions have been lack of subject matter jurisdiction, failure to conform an injunction to a prior Federal Circuit decision, and concern to avoid "double recovery." *Inline Connection Corp.* v. *Atlantech Online, Inc.*, 85 Fed. Appx. 767, 769-770 (Fed. Cir. 2004); *Joy Techs., Inc.* v. *Flakt, Inc.*, No. 94-1178, 1994 WL 745884 (Fed. Cir. Mar. 15, 1994) (*per curiam*); *Stickle* v. *Heublein*, 716 F.2d 1550, 1563 (Fed. Cir. 1983).

als of such injunctions in several other cases.[18] In only six known instances (including the decision below) has the Federal Circuit reversed a district court's denial of a permanent injunction.[19] Further, these reversals provide no evidence of a long-term trend against district court discretion to deny injunctions; only three of them occurred in the last sixteen years, and one of those three was effectively unopposed.[20]

While Judge Bryson's opinion did not recite the words "abuse of discretion," there is no reason to believe that the decision below unexpectedly departed from the principles outlined above. The opinion explicitly recognized that there can be circumstances where an injunction should not issue—such as, but not necessarily limited to, one where "a patentee's failure to practice the patented invention frustrates an important public need for the invention." Pet. App. 26a. Moreover, both parties had acknowledged that the abuse-of-discretion standard applied. *See* Pet. C.A. Reply Br. 31; Resp. C.A. Br. 13, 63. The absence of a *pro forma* recitation

---

[18] *Fuji Photo*, 394 F.3d at 1380-1381 ("proofs required for determining future infringing activity" "not insignificant and not amenable to a narrowly tailored order"); *Odetics*, 185 F.3d at 1272-1274 (laches); *Kearns*, 32 F.3d at 1550 ("Kearns' patents ha[d] expired," and "Chrysler ha[d] been manufacturing and selling its infringing [windshield wipers] for many years and Kearns ha[d] not."); *Magnavox Co.* v. *Activision, Inc.*, 848 F.2d 1244, 1988 WL 44721, at *3 (Fed. Cir. May 9, 1988) (table) ("no evidence of a substantial threat of future infringement or irreparable harm"); *Lear Siegler, Inc.* v. *Sealy Mattress Co.*, 846 F.2d 78, 1988 WL 24933, at *2 (Fed. Cir. Mar. 25, 1988) (table) (damages may have been "full compensation for the life of the patent"); *Amstar*, 823 F.2d at 1548-1549 (patent holder already awarded "full compensation for the making and using" of machines at issue).

[19] *Mallinckrodt*, 147 Fed. Appx. at 177; Pet. App. 3a; *Tate Access Floors*, 222 F.3d at 972; *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989); *W.L. Gore & Assocs.*, 842 F.2d at 1282; *Windsurfing Int'l*, 782 F.2d at 1003.

[20] In *Tate Access Floors*, an abuse of discretion was found after the defendant said it would "not oppose the entry of a permanent injunction" if a jury verdict of infringement was upheld. 222 F.3d at 972.

of that standard is not cause for reversal. *See Cooter & Gell* v. *Hartmarx Corp.*, 496 U.S. 384, 399, 405 (1990).

B. The Federal Circuit's Approach Is Consistent With A Long History Of Robust Enforcement Of Statutory Rights To Exclude

Petitioners strain to depict the Federal Circuit's approach to permanent injunctions as an innovation that is inconsistent with the law prior to that court's creation. Quite the reverse is true: permanent injunctive relief for infringement of a valid patent has long been a bedrock principle of patent law. Indeed, if anything, such relief was much more "nearly automatic" in the past than it is under the Federal Circuit's case law. The "general rule" favoring a permanent injunction against continued infringement of a valid patent is also entirely consistent with the purposes reflected in the Patent Act and the Patent Clause of the Constitution.

1. From our nation's founding to the present, Congress has recognized that patents serve the public interest by providing incentives to invent, to disclose inventions, and to turn inventions into commercial reality.[21] The key to patents' incentive power is the provision of a right to exclude others from exploiting the patented invention. Hence, the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the *exclusive Right* to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8 (emphasis added). And one of the first acts of Congress was the Patent Act of 1790, which provided "exclusive right[s]" in return for disclosure of a patented invention.[22]

---

[21] *See, e.g.*, Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition in Patent Law and Policy*, ch. 1, at 4-7 (2003) ("FTC Report"); *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (observing that "patent law seeks to foster and reward invention," and "promotes disclosure of inventions").

[22] Patent Act of 1790, §§ 1-2, 1 Stat. 709; *see* Edward C. Walterscheid, *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1798-1836*, at 463-465 (1998); Robert Patrick Merges

The first patent statute thus offered the basic bargain—statutory rights to exclude in exchange for disclosure of the invention—that remains at the heart of United States patent law. Except for a short-lived experiment with a "working" requirement for foreign inventors in the 1830s, Congress has never required that a patent be practiced by the inventor for the patentee to enjoy the right to exclude.[23] Section 271(d) of the current Patent Act, 35 U.S.C. § 271(d), makes clear that disclosure, not active exploitation of patent rights, provides full consideration for the statutory right to exclude. 35 U.S.C. § 271(d)(4) ("refus[al] to license or use any rights to the patent" not a ground for "den[ying] relief" to which a patent holder is "otherwise entitled"). Although Congress has adopted several narrow compulsory-licensing provisions for situations involving special public interests, Congress has repeatedly declined to enact additional limitations on the right to exclude. *See* p. 33, *infra*.

2. From the first patent act, permanent injunctions have been a central aspect of enforcement of the statutory right to exclude. Although the Patent Acts of 1790 and 1793 did not explicitly authorize federal courts to issue injunctions in cases where they exercised subject matter jurisdiction arising under the patent laws, state equity courts could hear and issue injunctions in patent cases (until 1870), as could federal courts, sitting in diversity, on the "equity

---

& Glenn Harlan Reynolds, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. on Legis. 45, 49 (2000); *see generally Grant* v. *Raymond*, 31 U.S. 218, 241 (1832) (Marshall, C.J.) ("[I]t cannot be doubted that the settled purpose of the United States has ever been, and continues to be, to confer on the authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent.").

[23] This basic bargain—rights to exclude in return for disclosure—reflected a sea change in British patent law, which evolved from a system requiring a patentee to "work" the invention, to one instead requiring a patentee to disclose the invention in a written description. E. Wyndham Hulme, *On the Consideration of the Patent Grant, Past and Present*, 13 L.Q. Rev. 313, 318 (1897); *see also* Walterscheid, *supra* n.22, at 403.

side."[24] Thus, when the Patent Act of 1819 expressly authorized federal courts to issue injunctions in patent and copyright cases, it was not authorizing relief that was previously unavailable as a general matter. *See Computing Scale Co.* v. *Toledo Computing Scale Co.*, 279 F. 648, 671 (7th Cir. 1921). Instead, the act merely eliminated a jurisdictional anomaly requiring a patent holder to seek equitable relief in state courts if federal diversity jurisdiction was lacking. *See Root* v. *Railway Co.*, 105 U.S. 189, 192-193 (1881); *see also* Br. of *Amici* General Electric et al. 6-9.

Moreover, from at least the early nineteenth century, the law has uniformly been that, absent special circumstances, a permanent injunction should issue once patent infringement is found.[25] The circuit courts consistently recog-

---

[24] *See Root* v. *Railway Co.*, 105 U.S. 189, 191-192 (1881); *Livingston* v. *Van Ingen*, 15 Fed. Cas. 697, 700 (C.C.D.N.Y. 1811) (No. 8,420).

[25] Harmon, *supra* n.14, § 16.1(a), at 915 (7th ed. 2005) (It is "the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."); Terence P. Ross, *Intellectual Property Law: Damages and Remedies* § 11.04[5], at 11-49 (2000) ("The 'general rule' is that in patent litigation an injunction will issue when a court enters a judgment of infringement, absent a 'sound reason' for denying the injunction."); 8 Anthony William Deller, *Deller's Walker on Patents* § 719, at 464 (2d ed. 1973) ("A permanent injunction follows a decision in favor of the complainant on the interlocutory hearing of a patent case unless some special reason exists for its being refused[,] postponed[,] or ... suspended pending an appeal."); Herbert F. Schwartz, Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Penn. L. Rev. 1025, 1041-1042, 1044 (1964) (By the mid-nineteenth century, permanent injunctions were "often granted as a matter of course," and this practice "continued" in the twentieth century.); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342-343 (1958) ("Once the issues have been finally adjudicated in the plaintiff's favor, a permanent injunction is usually granted as a matter of course."); William Macomber, *The Fixed Law of Patents as Established by the Supreme Court of the United States and the Nine Circuit Courts of Appeals* 37 (1909) ("[A] final and perpetual injunction is, when the complainant has shown his right under a living patent to equitable relief on final hearing, a matter of right[.]"); 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 1220, at 653 (1890) ("A perpetual injunction issues, as a matter of course, at the conclusion of a suit in equity, whenever the plaintiff

nized the absolute nature of a patent holder's rights to exclude, as well as the concomitant rule that injunctions for patent infringement should generally issue.[26] Traditional equity practice was, if anything, more strict in requiring injunctions against infringement than any "general" rule that the Federal Circuit is now said to follow. For example, in accordance with the principle that equity courts were to follow the rulings of courts of law, the accepted rule was that, once a law court had found patent validity and infringement, an equity court essentially *had* to issue an injunction.[27]

---

has sustained the allegations of his bill, provided the patent has not then expired."); William Edgar Simonds, *A Summary of the Law of Patents for Useful Inventions with Forms* 250 (1883) ("When in the course of an equity suit, the court . . . finds that the patent is valid, and that it has been infringed, the court grants, as a matter of course, a perpetual injunction[.]"); J.G. Moore, *Patent Office and Patent Laws: or, A Guide to Inventors and a Book of Reference for Judges, Lawyers, Magistrates and Others* 175 (1855) ("Where a court of equity . . . is well satisfied of the originality of an invention, the regularity of a patent, and of the facts of infringement, it will not send the case to a jury to have its verdict, prior to granting a perpetual injunction. It will grant it at once[.]"); Curtis (1849), *supra* n.12, § 345, at 388 ("After a trial and judgment at law, in favor of the plaintiff, the injunction will be revived or granted as matter of course.").

[26] *See, e.g., United States* v. *Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1127 (D.C. Cir. 1981) ("A patentee has the right to an injunction barring use of the patented process or product without his permission[.]"); *Montgomery Ward & Co.* v. *Clair*, 123 F.2d 878, 883 (8th Cir. 1941) ("[A]n injunction applying to future conduct will not usually be denied unless the elements of estoppel exist."); *Indiana Mfg. Co.* v. *J.I. Case Threshing Mach. Co.*, 154 F. 365, 371 (7th Cir. 1907) (patent law provides an inventor with "an unqualified right to deprive the people of [an invention's] use for 17 years," and not "a lesser right conditioned upon his giving the public the benefit of his invention in a way some chancellor might deem equitable"); *Electric Smelting & Aluminum Co.* v. *Carborundum Co.*, 189 F. 710, 711 (C.C.W.D. Pa. 1900) ("Ordinarily such decree for an accounting, and an injunction follows as a matter of course, unless there are cogent reasons for departing from such course."); *Rumford Chem. Works* v. *Hecker*, 20 F. Cas. 1347, 1348 (C.C.D.N.J. 1876) (No. 12,134) ("[T]he ordinary practice is for an injunction, as a matter of course, to follow a decree in favor of the complainant on the merits[.]").

[27] *See, e.g., Woodworth* v. *Stone*, 30 F. Cas. 593, 594 (C.C.D. Mass. 1845) (No. 18,021) (Story, J.) ("A bill will lie for an injunction, if the patent

Petitioners and their *amici* identify scattered cases in which permanent injunctions were denied, or in which courts suggested that an injunction should not be used merely "to enhance [a patent holder's] negotiating stance," *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974). In fact, the cases in which injunctions were denied were quite clearly the rare exceptions.[28] In general,

---

right is admitted or has been established, upon well grounded proof of an apprehended intention of the defendant to violate the patent right."); Willard Phillips, *The Law of Patents for Inventions Including the Remedies and Legal Proceedings in Relation to Patent Rights* 468 (1837) ("If on a trial at law the plaintiff establishes his right, the injunction on the defendant is, on his motion, made perpetual[.]"); W.M. Hindmarch, *A Treatise on the Law Relative to Patent Privileges for the Sole Use of Inventions: And the Practice of Obtaining Letters Patents for Inventions* 215-216 (1847) ("If the patent has been established in a Court of Law . . . , and it has been shown that the defendant has actually committed an infringement of the patent privilege, the plaintiff is clearly entitled to" an injunction, and "it would be useless for a defendant further to resist[.]"); *see also* 2 Robert Henley Eden, *A Compendium of the Law and Practice of Injunctions, and of Interlocutory Orders in the Nature of Injunctions* 306-3, n.1 (3d ed. 1852) ("'But where the right is clear an injunction is never refused.'" (quoting *Livingston* v. *Van Ingen*, 9 Johns. Rep. 507 (N.Y. Sup. Ct. 1812 Term) (Yates, J.))). Indeed, for much of the nineteenth century, even the granting of *preliminary* injunctions appears to have been "automatic" once the patent holder made a "clear"—sometimes only a "reasonable"—showing of patent validity and infringement. *See, e.g.*, Schwartz, Note, 112 U. Penn. L. Rev. at 1029; Curtis (1849), *supra* n.12, § 325, at 368.

[28] *See* Donald S. Chisum et al., *Principles of Patent Law* 1342 (3d ed. 2004) ("[F]or more than two hundred years, the result has almost always been that, after there has been a final determination of infringement, the prevailing patent owner will be granted a[n] injunction[.]"); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342-343 (1958) ("[O]n rare occasions the courts have refused [a permanent injunction] when the nature of the injury was trifling or when the defendant would have suffered injury out of all proportion to the value of protecting the patentee's monopoly[.]"). Scholars have described one famous case in which denial of an injunction was considered, *Vitamin Technologists, Inc.* v. *Wisconsin Alumni Research Found.*, 146 F.2d 941 (9th Cir. 1944), as "a far extreme of judicial thinking on the subject, as few cases refuse to enforce patents for broad public policy reasons." Robert Patrick Merges & John Fitzgerald Duffy, *Patent Law and Policy: Cases and Materials* 1062 (3d ed. 2002).

those cases involve precisely the sort of extraordinary circumstances for which the Federal Circuit's "general rule" allows exceptions—cases involving substantial innocent third-party and public interests, or an infringer's innocent and substantial commitment of resources grossly out of proportion to any benefit from the invention.[29] And to the extent that the Second Circuit's decision in *Foster* stands for the proposition that a patent non-user should receive only "half a loaf" when it comes to remedies, or that hardships should be freely balanced without special consideration for the patent holder's statutory right, *Foster*—not the Federal Circuit's case law—deviates from long-established rules of equity.[30] *See* pp. 31-32, 38, *infra*. Indeed, one of the reasons the Federal Circuit was created was to eliminate anomalies in patent law that outlier circuits—including the Second Circuit—had produced.[31]

---

[29] *See, e.g., Nerney* v. *New York, N.H. & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1946) (denying extension of injunction's scope to cover incidental transit of infringing railroad cars manufactured and operated by non-parties); *Electric Smelting & Aluminum Co.*, 189 F. at 712-714 (bond could replace an injunction in an "exceptional" situation where defendants were not "wanton, reckless" infringers, and injunction would force shutdown of defendants' business, "throw[ing] out of employment a hundred and fifty men for whom there is no other carborundum works in which to seek employment"); *Draper Co.* v. *American Loom Co.*, 161 F. 728, 732 (1st Cir. 1908) (instructing that an injunction might be denied where it might seriously disrupt defendant's business and patent would expire in three months).

[30] Another opinion that petitioners cite (Br. 48), *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F.2d 734, 734 (2d Cir. 1934), does not explain why the court found no "danger of irreparable injury or a multiplicity of suits." To the extent it suggests that damages generally "sufficient[ly] recompense" continuing infringement, *id.* at 734-735, it is also inconsistent with traditional equity principles. *See* pp. 28-29, *infra*.

[31] The Second Circuit's antipathy to patent enforcement was notorious. *See* Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. Rev. 1, 7 (1989) ("[I]n the period 1945-1957, a patent was twice as likely to be held valid and infringed in the Fifth Circuit than in the Seventh Circuit, and almost four times more likely to be enforced in the Seventh Circuit than in the Second Circuit.").

3. The Federal Circuit's recognition that permanent injunctions should generally follow a determination of patent infringement is also consistent with the general availability of injunctive relief for copyright and trademark violations under statutory provisions similar to 35 U.S.C. § 283, namely, 15 U.S.C. § 1116(a) and 17 U.S.C. § 502(a).[32] In copyright and trademark cases, the general rule has been that, when past infringement and a threat of continuing infringement are shown, a permanent injunction will issue.[33] Indeed, a leading treatise on copyright indicates not only that injunctions ordinarily issue, but also that, "[g]enerally, it would appear to be an abuse of discretion to deny a permanent injunction where liability has been established and there is a threat of continuing infringement." 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.06[B], at 145 (2005). As with patents, the nature of the right is the basis for this "general rule." Like patents, copyright and trademark create rights to exclude that are often

---

[32]Prior to the Copyright Act of 1976, the applicable statutory provision for copyright infringement, like that for patent infringement, explicitly authorized injunctions "according to the course and principles of courts of equity." 17 U.S.C. § 112 (1976). Contrary to the suggestion of petitioners' *amici* (Br. of 52 Intellectual Property Professors 3), omission of language regarding equity from 17 U.S.C. § 502(a) has not been understood to have changed the principles regulating injunctive relief. *See* 2 Paul Goldstein, *Goldstein on Copyright* § 11.2.1, at 11:9-11:10 (3d ed. 2005).

[33] *See, e.g.*, *Walt Disney Co.* v. *Powell*, 897 F.2d 565, 567-568 (D.C. Cir. 1990) ("When a copyright plaintiff has established a threat of continuing infringement, he is entitled to an injunction."); *United States Jaycees* v. *Cedar Rapids Jaycees*, 794 F.2d 379, 282 (8th Cir. 1986) (injunctions for trademark infringement denied only in the most unusual circumstances); *Restatement (Second) of Torts* § 938 cmt. b (injunctions routine in trademark cases); 1 Dan B. Dobbs, *Dobbs Law of Remedies* § 2.5(3), at 134-135 (2d ed. 1993) (injunctions "go readily and even routinely" for trademark, copyright, and patent infringement); *see also* 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30:1, at 30-6 (2005); Ross, *supra* n.25, § 11.03[5], at 11-34 (Supp. 2005) (copyright); *id.* § 11.05[5], at 11-64 to 11-65 (trademark); Patrick J. Flinn, *Handbook of Intellectual Property Claims and Remedies* § 7.07[C][1], at 7-64.2 (copyright).

difficult to measure in monetary terms and are "depend[ent] on the ability to enforce the exclusivity." 1 Dan B. Dobbs, *Dobbs Law of Remedies* § 2.5(3), at 135 (2d ed. 1993).[34]

In sum, the Federal Circuit's approach to permanent injunctions is entirely consistent with historical equity practice. By repeatedly re-enacting statutory language authorizing injunctions according to principles of equity, Congress has long acquiesced in the "general rule" of equity that has resulted.[35] Scattered cases in which federal courts have denied permanent injunctions are inadequate to overcome the overwhelming authority supporting this "general rule."

C. Traditional Equitable Factors Generally Favor An Injunction When A Valid Patent Has Been Infringed

1. Petitioners argue that, in deciding whether to enter a permanent injunction in patent cases, courts should follow a "traditional four-factor test" (Br. 20) that they discern in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311-312 (1982). In fact, *Weinberger* did not speak of any "test" for equitable relief, with four factors or otherwise. What *Weinberger* did say was that "[t]he Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable harm and the inadequacy of legal remedies." *Id.* at 312. As the Federal Circuit has recognized, where a valid patent has been found infringed, these two factors will generally point in favor of an injunction. *See* pp. 28-31, *infra*.

The Court further stated in *Weinberger* that, "[w]here plaintiff and defendant present competing claims of injury,

---

[34] Indeed, the right to exclude is even more precious in the patent than in the copyright or trademark context; the latter also provide the holder with the right to *use* the intellectual property, but the patent holder *only* has the right to exclude others.

[35] Patent Act of 1836, ch. 357, § 17, 5 Stat. 117; Patent Act of 1870, ch. 230, § 55, 16 Stat. 198; Patent Act of 1897, ch. 391, 29 Stat. 692-694, § 4921 (R.S. 4921); Patent Act of 1952, ch. 950, § 1, 66 Stat. 812 (codified at 35 U.S.C. § 283); *see also* S. Rep. No. 82-1979, *reprinted in* 1952 U.S.C.C.A.N. 2394, 2403, 2423 (§ 283 is "the same as" its statutory predecessor, "with minor changes in language").

the traditional function of equity" has been to reconcile those competing claims. 456 U.S. at 312. But the Court did not suggest that in every class of case, a defendant will necessarily have a "competing claim of injury" that warrants a place in the balance against a prevailing plaintiff. In patent cases, that point is particularly important, because any "competing claim of injury" that a defendant might have is likely to be deprivation of the economic benefit from continuing its infringement of the plaintiff's patent. Deprivation of such a *wrongful* benefit is not the kind of injury of which equity takes cognizance. *See* p. 31, *infra*. And the point that an infringer is not well situated to make a claim on equity is redoubled in cases like this one, where the jury has found conduct that constituted *willful* infringement from the start. A willful infringer has, at the very least, engaged in "egregious and reckless conduct," *Union Carbide Chems. & Plastics Tech. Corp.* v. *Shell Oil Co.*, 425 F.3d 1366, 1381 (Fed. Cir. 2005), and thus, as more generally with those who have acted in bad faith, can typically "make no claims whatsoever on the Chancellor's conscience." *Albemarle*, 422 U.S. at 432; *see* n.45, *infra* (jury found here that petitioners failed to act in good faith to avoid infringement).

2. Once a patent has been found to be valid and infringed, the plaintiff will, in most cases, have irrefutably shown that it lacks an adequate remedy at law, and that denial of injunctive relief will cause it irreparable harm.[36] These conclusions follow from the nature of the patent right itself. *See Continental Paper Bag Co.*, 210 U.S. at 430 ("From the character of the right of the patentee we may judge of his remedies."). The patent right's fundamental aspect—its sum total—is "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a)(1). What the law

---

[36] Inadequacy of legal remedies and irreparable injury if equitable relief is denied are, in effect, two sides of the same coin. *See* Douglas Laycock, *Modern American Remedies: Cases and Materials* 370 (3d ed. 2002).

gives patentees is, in essence, the right to invoke the power of the state, via the courts, to enforce this right to exclude. Without a mechanism to prevent others from encroaching on this right, a patent holder does not obtain the benefit of what Congress has bestowed. As the Court stated in *Continental Paper Bag*, "the right can only retain its attribute of exclusiveness by a prevention of its violation." 210 U.S. at 430; *see also Fuller* v. *Berger*, 120 F. 274, 279 (7th Cir. 1903) ("Injunction, it is evident, is the only means equal to enforcing the right to exclude.").[37]

In this regard, patent rights are very similar to other property rights that, courts have long concluded, ordinarily warrant protection through injunctive relief. Patent infringement involves violation of property rights that are inherently unique (indeed, novel and nonobvious, 35 U.S.C. §§ 101-103) and irreplaceable. Hence, as with real property, unique personal property,[38] and other intellectual property

---

[37] Petitioners erroneously assert that an injunction is unnecessary to protect the right to exclude because enhanced damages suffice to deter future infringement. Br. 23. That is not true, as this case well demonstrates. MercExchange's expert calculated the reasonable royalty for past infringement at 0.75% of gross merchandise sales. Tr. 1977. Because eBay's profit margins are above 80%, even trebling the damages here would leave petitioners with a healthy profit—and with no incentive to cease infringing. *See* Richard Waters, Financial Times UK (Jan. 21. 2005) (eBay's gross profit margin "above" 80 percent).

[38] Petitioners and their *amici* try to make much of the fact that the Patent Act provides that, "[s]ubject to the provisions of this title, patents shall have the attributes of personal property." 35 U.S.C. § 261. Because invasions of rights to *fungible* personal property (unlike real property or unique personal property) generally are remedied through damages rather than injunctive relief, petitioners argue that patent infringement also need not be remedied through injunctive relief. Br. 26-28. But there is no reason to believe that Congress meant § 261 to govern the kind of *relief* to be given under the Patent Act; if Congress had so intended, then it is hardly likely that Congress would have authorized federal courts to issue injunctions against infringement, precisely because the background principle favoring only legal remedies for the conversion of fungible personal property is clear. Rather, § 261 appears primarily intended to make clear that patents are not subject to complex state-law rules governing recordation and transfer of real property, and are instead subject, for

such as copyright, continued infringement of a patent inflicts irreparable harm that cannot be adequately remedied through *ex post* damages, and should ordinarily be prevented through injunctive relief.[39]

Absent an injunction, the possibility of continued infringement means that a patent holder will need to bring multiple lawsuits to protect its legal rights—the very opposite of the repose that legally confirmed title to a "right to exclude" is meant to provide. Justice Story emphasized this point when he first explained that courts grant injunctions to protect patent rights so as "to prevent irreparable mischiefs, or to suppress multiplicity of suits and vexatious litigation," and then further warned that, "if no other remedy could be given in cases of patents and copy-rights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation, without ever being able to have a final establishment of his rights." 2 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England and America* §§ 930-931, at 209-210 (1836). And even if monetary relief were a theoretically

---

purposes of transfer and assignment, to separately developed rules for personal property. *Cf. Hartley Pen Co.* v. *Lindy Pen Co.*, 102 U.S.P.Q. 151, 156 (1954) (courts must look to state law governing acquisition of personal property in patent ownership disputes). Moreover, to the extent patents are like personal property, they are unique and irreplaceable property, and therefore an invasion of patent rights, like an invasion of rights in unique personal property, ordinarily warrants an injunction.

[39] *See* 2 Joseph Story, *Commentaries on Equity Jurisprudence as Administered in England and America* § 709, at 18-19 (1836) (noting that "there are cases [involving chattels], in which such a remedy at law by damages would be utterly inadequate," and that, "[i]n all such cases, Courts of Equity will interfere . . . by requiring a specific delivery of the thing, which is wrongfully withheld"); Dobbs, *supra* n.33, § 2.5(2), at 130; Douglas Laycock, *The Death of the Irreparable Injury Rule*, 103 Harv. L. Rev. 687, 704-706 (1990); *see also Cook* v. *Ernest*, 6 F. Cas. 385, 391 (C.C.D. La. 1872) (No. 3,155) ("If the rights of property so invaded were rights to land or other tangible estate, no court would hesitate for a moment to restrain the wrong-doer by injunction. The property in a patent is just as much under the protection of the law.").

adequate remedy, the well-established difficulty of proving and assessing damages for patent infringement—which often requires first determining whether lost profits or a reasonable royalty should be the measure, and then trying to determine what such a measure yields—strongly suggests that courts cannot reliably promise satisfactory compensation.[40] "[R]emembering the innumerable obstacles which beset a recovery of damages and profits, it must be conceded that an injunction is the only adequate remedy." *Carter & Co.* v. *Wollschlaeger*, 53 F. 573, 577 (C.C.N.D.N.Y. 1892).[41]

3. To the extent the balance of hardships is relevant in patent infringement cases, it will rarely favor the infringer. There may be unusual circumstances in which an injunction will cause extraordinary hardship far out of proportion to any harm caused by the infringement. But the "harm" to an infringer included in any balance of hardships surely may not include mere deprivation of the economic benefits of infringing. An adjudicated infringer "is not entitled to consideration if what [it wishes] to do is infringement under the law, for to prevent [it] from doing that is the whole purpose of the suit." *Hughes Tool Co.* v. *Owen*, 123 F.2d 950, 953 (5th Cir. 1941); *see also* Dobbs, *supra* n.33, § 2.4(5), at 110-111 (hardships to the defendant that are inseparable incidents of

---

[40] Attempts to determine a reasonable royalty frequently make reference to a complex, multi-factor test set forth in *Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd sub nom. Georgia-Pacific Corp.* v. *U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2d Cir. 1971). *See, e.g., Interactive Pictures Corp.* v. *Infinite Pictures, Inc.*, 274 F.3d 1371, 1385-1386 (Fed. Cir. 2001). The complicated economic analyses required to estimate lost profits, frequently requiring a determination of market share and questions of price erosion, tend to be no simpler. *See Grain Processing Corp.* v. *American Maize-Prods. Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999); *see generally* 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 705c (2004) ("[C]ompulsory licensing places the court in the position of price regulator—a task for which it is very poorly suited.").

[41] *See also Phillips* v. *Crown Cent. Petroleum Corp.*, 602 F.2d 616, 630 (4th Cir. 1979) ("A future injury of uncertain date and incalculable magnitude is irreparable harm[.]").

the plaintiff's right are not properly considered in equity). And when, as in this case, the infringement was willful from the start and the infringer has insisted that an inexpensive "design-around" is available, the infringer has no interests to be placed in the balance of hardships.[42] In this respect, patent law is no different from case law involving continuing trespass and encroachments on land, where the willful encroacher has no claim on the Chancellor's conscience.[43]

---

[42] *See Windsurfing Int'l*, 782 F.2d at 1003 n.12; *Patent Law Reform: Injunctions and Damages, Hearing Before the Senate Comm. on the Judiciary*, 109th Cong. (2005) (testimony of Prof. Mark A. Lemley) ("[I]n most cases there will be no question as to the patentee's entitlement to such relief": *e.g.*, "in cases of willful infringement.") *available at* http://judiciary.senate.gov.; Ross, *supra* n.25, § 11.03[5], at 11-34 to 11-35 ("A willful infringer [of a copyright] cannot complain of the harm that will befall it when properly forced to desist from infringing activities.").

[43] *See, e.g.*, 5 John Norton Pomeroy & John Norton Pomeroy, Jr., *Pomeroy's Equity Jurisprudence and Equitable Remedies* § 1922, at 4362-4634 (4th ed. 1919) (injunction will issue as to willful encroachment without balancing hardships); Laycock, *supra* n.36, at 402, 406 (where encroachment is intentional, courts have refused to balance the equities and have granted injunctions regardless of the relative hardships); *United States* v. *Marine Shale Processors*, 81 F.3d 1329, 1359 (5th Cir. 1996) (noting traditional equitable principle that courts need not balance hardships when defendant's conduct has been willful derives in part from encroachment cases); *Louis W. Epstein Family P'ship* v. *KMART Corp.*, 13 F.3d 762, 769-770 (3d Cir. 1994) (district court did not err in refusing to consider hardship to defendant who willfully infringed easement); *Burke* v. *Voicestream Wireless Corp.*, 87 P.3d 81, 87 (Ct. App. Ariz. 2004) (defendants knowingly constructed cellular telephone tower in violation of restrictive covenant and are not entitled to claim hardship from its compelled removal); *Kratze* v. *Independent Order of Oddfellows*, 442 Mich. 136, 145 n.10 (1993) (where encroachment is intentional or willful, injunction will ordinarily issue regardless of the hardship to defendant); *Waterbury Trust Co.* v. *GLD Realty Co.*, 199 A. 106 (Conn. 1906) (one whose rights in realty have been willfully invaded is entitled to have the original condition restored by injunction, even though the wrongdoer thereby suffers great loss); *cf. Arnold* v. *Melani*, 449 P.2d 800, 805-806 (Wash. 1969) (mandatory injunction for removal of encroachment could be withheld as oppressive where defendant did not act willfully or in bad faith). Moreover, this is not a case in which the defendant's "structure" encroaches mere inches over the property line; petitioners have in effect occupied the entire parcel.

4. Finally, to the extent the public interest is relevant, it generally will also favor the patentee. An injunction serves the public interest by protecting the value of patent rights that Congress has chosen to provide, thereby encouraging the creation, development, disclosure, and commercialization of new and nonobvious inventions. *See* p. 20, *supra*. Indeed, public policy in favor of a meaningful "right to exclude" is embodied not only in the Patent Act, but also in the Constitution's Patent Clause, which explicitly contemplates use of "exclusive Right[s]" "[t]o promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8.

Such authoritative indicators of the public interest favoring injunctions can only be overcome by an exceptionally strong showing of public interest on the other side. The public interest will rarely favor affording general public access to an invention even if that access must be paid for (in effect, the consequence of denying injunctive relief). The entire patent system is based on the premise that the patent holder, not any branch of government, should be empowered to decide who may or may not practice the invention. Federal courts have no roving commission to determine which inventions are so important that they cannot be withheld from either the public or an individual. Congress has addressed specific situations where a public interest counter to the grant of an injunction might exist—for example, cases involving a medical emergency or an environmental or governmental interest.[44] Consequently, although the Federal Circuit rightly anticipates that situations might arise in which the public interest calls for a court to use its discretion to deny a permanent injunction, it also rightly recognizes that such circumstances will be rare. *See* Pet. App. 26a.

In sum, irreparable harm and lack of an adequate legal remedy follow naturally from a patent's grant of a unique

---

[44] *See* 35 U.S.C. § 287(c) ("medical practitioner" exemption); 42 U.S.C. § 1857h-6 (Clean Air Act); 42 U.S.C. § 2183 (Atomic Energy Act); 28 U.S.C. § 1498 (government use); *cf.* 7 U.S.C. § 2404 (Plant Variety Protection Act).

property right in an invention. Because the public interest presumptively favors enforcing this right, and because the harm that an injunction may cause the infringer commonly does not extend much beyond loss of the benefits of infringing, the Federal Circuit correctly observed that, as a "general rule," "a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a.

II. THE FEDERAL CIRCUIT RIGHTLY RULED THAT THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING A PERMANENT INJUNCTION

Whatever "test" appropriately governs the availability of a permanent injunction as a remedy for patent infringement, it is clear that the Federal Circuit correctly ruled that an injunction should issue here, and that the district court abused its discretion in ordering otherwise. The district court offered several reasons why, it believed, this case was not the "norm," but instead "atypical" and "highly unusual." Pet. App. 56a, 59a. The Federal Circuit methodically reviewed these reasons and rightly concluded that they were not "persuasive" because they were illogical, clearly unreasonable, or irrelevant to the pertinent equitable factors. *See id.* at 26a-28a. In other words, the Federal Circuit correctly ruled that the district court had abused its discretion.

It bears emphasis that this is not a case of an innocent or one-time infringement. As the jury found, petitioners' willful and continuing infringement has been "clearly established." *Id.* at 35a.[45] And where infringement has been willful from the start, the presumption of irreparable harm that arises from infringement of a valid patent generally cannot

---

[45] Here there is no question that petitioners' infringement was knowing and deliberate from the start. The jury found by clear and convincing evidence that petitioners knew of the '265 patent and thus had a duty to avoid infringing it, but that petitioners failed to act in good faith to avoid such infringement. Tr. 3519, 3546-3547. Indeed, petitioners tried to buy the patent before they commenced infringement, and they deliberately chose to begin infringing when they could have, by their admission, avoided infringement with a simple and inexpensive design-around.

be counterbalanced by any showing of harm that an injunction will cause the defendant. *See* pp. 31-32, *supra*; *see also, e.g., United States* v. *Marine Shale Processors*, 81 F.3d 1329, 1359 (5th Cir. 1996) (noting "traditional principl[e] of equity" that a court need not balance hardships when defendant's conduct has been willful); *EPA* v. *Environmental Waste Control, Inc.*, 917 F.2d 327, 332 (7th Cir. 1990) (same). The district court abused its discretion, therefore, by considering the "balance of hardships" between the parties in this case.

In any event, petitioners and their *amici* have not identified any equitable harm that petitioners would suffer from an injunction. Indeed, eBay continues to tell the investing public that "any injunction that might be issued [in this case] will not have any impact on [eBay's] business" (*see* n.8, *supra*), and, at trial, eBay argued that it could avoid infringement of the '265 patent by a "design around" that would cost less than $10,000. JA 865, 862-863.[46] Nor do any of the other reasons the district court gave for denying a permanent injunction withstand scrutiny.

1. Willingness To License. The district court reasoned that MercExchange's "willingness to license" its patents in the past suggested that "money damages are an adequate remedy to compensate" MercExchange "for any continuing infringement" of the '265 patent. Pet. App. 54a-55a.

This is an extraordinarily strange rationale—that a property owner is, in effect, estopped from standing on its right to exclude the world merely because it has authorized specific use of its property by a few others in the past. If the argument had arisen in a context other than patent law, it would hardly be given a hearing; no one would suggest, for example, that merely because a landowner had allowed a few persons to walk across his property, or had invited a guest to

---

[46] If anything, as the district court found, eBay's failure to adopt this allegedly "simple, inexpensive" work-around, which "would have saved the time, expense, and necessity for this litigation," should weigh against eBay in the equitable balance. Pet. App. 35a.

enter his home, he should be precluded from seeking to enjoin everyone else from doing so.

Moreover, in patent situations, such a license is generally not a simple on-off switch. As MercExchange's license with AutoTrader demonstrates, licenses can include multiple significant terms that go beyond a mere exchange of money for the right to use the invention. *See* JA 493-512. The value of such terms—and, more certainly, the ability to set them—are commonly not replicable by a simple award of money.

Petitioners contend that the "right to exclude" cannot be used to justify an injunction where the inventor "merely" licenses her invention, because the Federal Circuit has held that "[a]ll or part of the right to exclude may be waived by granting a license." Br. 26 (quoting *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995)). Of course, the right to exclude is waived as to a licensee, but it is not thereby waived as to any stranger who may want to steal one's invention. Long-established precedent—including this Court's decision in *Continental Paper Bag*—and 35 U.S.C. § 271(d) make clear that patents are enforceable by non-users and licensors.[47] And it was particularly illogical for the district court to rule that willingness to license is an indication that the patentee no longer has an interest in the right to exclude: MercExchange was willing to license its invention to eBay to build a business relationship, but eBay declined that opportunity and decided to infringe instead. *See* pp. 3-4, *supra*. It cannot be correct

---

[47] The district court erroneously relied on a reference to "'lack of commercial activity'" in *High Tech Medical Instrumentation, Inc.* v. *New Image Industries, Inc.*, 49 F.3d 1551, 1556 (Fed. Cir. 1995), to justify a user-licensor distinction. Pet. App. 54a-55a. But *High Tech*, like another case petitioners cite (Br. 31), *T.J. Smith & Nephew Ltd.* v. *Consolidated Med. Equip., Inc.*, 832 F.2d 646 (Fed. Cir. 1987), involved a preliminary injunction motion, for which irreparable harm analysis is different. *See* n.54 & accompanying text, *infra*. Moreover, in *High Tech*, 49 F.3d at 1556, the court found a "lack of commercial activity" only because the patentee neither made, nor sold, *nor licensed* its invention—a far cry from this case.

that MercExchange's willingness to license should count against it, whereas eBay's willful refusal to license, plus its willful infringement, should not seem to count at all.

Discrimination against licensors in providing final relief is also contrary to patent policy. Patent licensing is critically important in promoting both innovation and competition.[48] Innovation is commonly incremental and cumulative, and the willingness of early patent holders to license their inventions can therefore significantly affect incentives and opportunities for subsequent research and innovation.[49] For complicated systems involving numerous components, patent licensing can facilitate the integration of various technologies, thereby producing efficiencies and lower costs. In addition to providing royalty rewards for inventors, licensing can increase use of patented technologies by the inventors themselves: in the absence of licensing, a patent holder may not have the capital to exploit her invention, or exploitation may be thwarted by a "blocking" situation, in which a patent owner cannot use its own invention because that invention incorporates technology patented by another. *See generally* Adam Hemlock & Jennifer Wu, *U.S. Antitrust Implications for Patent Licensing*, 52 Fed. Lawyer 39, 40 (2005).

Our patent system therefore recognizes that licensing should be encouraged. *See* FTC Report, ch. 1, at 24-25. The district court's approach, however, would deter inventors from licensing their inventions because licensing would decrease the likelihood of being able to enforce patent rights via injunctions. The results would likely be increased patent suppression or, with the trade-secret approach to idea protection becoming relatively more desirable, failure to obtain patents (and to disclose inventions) at all.

---

[48] *See, e.g.*, National Res. Council, National Academies, *A Patent System for the 21st Century* 26-27, 31 (Stephen A. Merrill et al. eds., 2004) ("*National Academies Report*"); FTC Report, ch. 1, at 14, 22-25.

[49] *See National Academies Report* 35.

A second deleterious effect of the district court's rule would be significant erosion of the value of patent licenses. The patentee's ability to negotiate a license frequently rests on both need for the invention and the prospect of an injunction to prevent non-licensees from practicing the invention. If the prospect of an injunction is removed, potential licensees may be deterred from licensing the invention because the patentee has no way to stop non-licensees from freely infringing. *See, e.g.*, JA 493-512 (licensee would pay royalties only if patent holder could bring a halt to infringing activities). The more valuable the invention is, the greater this free rider problem is, and the greater is the need for legal protection to prevent it. "Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research." *Smith Int'l* v. *Hughes Tool Co.*, 718 F.2d 1573, 1577-1578 (Fed. Cir. 1983).

The fact that a permanent injunction would likely give a patent holder "leverage" in subsequent licensing negotiations should not weigh against the patent holder in the equitable analysis. That "leverage" is what Congress, by providing a "right to exclude," 35 U.S.C. § 154(a)(1), meant for the patent holder to have. *See Brulotte* v. *Thys Co.*, 379 U.S. 29, 33 (1964) ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."). It is petitioners' position—not the courts' long-established "general rule"—that would upset Congress's statutory scheme by artificially limiting the availability of injunctive relief, thereby significantly reducing the value of the patent and its ability to promote innovation.

2. Concern About Business Method Patents. Although the district court acknowledged that the public interest usually favors the patentee, the court concluded that, in this case, the public interest in enforcing valid patents was counterbalanced by a "growing concern over the issuance of business method patents." Pet. App. 57a. The court noted that the PTO gives special scrutiny to applications for

business method patents, and that legislation had been introduced that would have eliminated the presumption of validity for such patents. *See id.* at 57a-58a.

As the Federal Circuit concluded, a generalized concern about business method patents is not a legitimate counterweight to the public interest in the patent system's integrity. The '265 patent was found valid, and the district court had no warrant to place it in a disfavored class of inventions.[50] To the extent business method patents might be problematic, that problem can and should be addressed by Congress and the PTO,[51] rather than by judicial intervention "to curtail the established rights of patent holders" on a broad scale. *E.g.*, Carl Shapiro, *Patent System Reform: Economic Analysis and Critique*, Berkeley Tech. L.J. 1017, 1026-1027 (2004). Indeed, the fact that Congress considered but *never enacted* legislation that would have eliminated the presumption of validity for business method patents reinforces the court's error in making purported concern over such patents a counterweight to the public interest in enforcing a patent holder's "right to exclude."

Nor, contrary to petitioners' argument (Br. 13), is the pending reexamination of the '265 patent relevant here. That reexamination was not a factor in the district court's decision and is not properly before this Court. Moreover, any rule that gives weight to the pendency of a reexamination would only encourage infringers routinely to launch a second, administrative front in patent litigation after a jury

---

[50] The district court's reliance on apparent suspicion of business method patents is particularly ironic because the '265 patent is one for a system—an electronic market—rather than a method. *See* p. 1, *supra*.

[51] Congress and the PTO have already taken such steps. The PTO has implemented the stricter review procedures to which the district court adverted. Pet. App. 57a-58a. Congress has enacted a special defense for those who began commercial use of a business method "in good faith" before the patent's "effective filing date." 35 U.S.C. § 273(b)(1). Even if the '265 patent were a method patent subject to § 273, *but see* n.50, *supra*, eBay, a willful infringer that began infringing the '265 patent long after its filing date, would be doubly disqualified from this defense.

verdict of infringement. In this very case, eBay requested a reexamination of the '265 patent only *after* it had been found liable for willful infringement in the district court and while its appeal to the Federal Circuit was pending, in an obvious attempt to avoid the consequences of having been found in willful infringement of MercExchange's patent.[52]

3. Non-Practice. The district court suggested that an injunction against eBay's infringement was not warranted because MercExchange "does not practice its patents, nor has any intention of practicing its patents." Pet. App. 57a. That conclusion was an abuse of discretion on several counts. MercExchange is not suppressing its invention. It had every intention to "practice" its patents; after the '265 patent issued, Woolston and MercExchange tried for several years to commercialize the '265 patent, and raised capital and hired programmers to this end. *See* p. 3, *supra*. Although MercExchange today only licenses its inventions, licensing is not "non-practice." For all relevant purposes, licensing constitutes "use." *Cf. Continental Paper Bag*, 210 U.S. at 427-428 (patentee "never attempted to make any practical use of [the patent], either itself or through licenses."). If injunctive relief could be denied to small companies or individuals because they license their inventions after failing in efforts to build a business directly practicing them, there would be substantially less incentive for them to innovate, patent, and try to commercialize their inventions.

4. Possible Contempt Proceedings. The district court suggested that granting the injunction would result in "contempt hearing after contempt hearing" at great cost to the parties and judicial resources. Pet. App. 59a. The court evidently believed it would be more appropriate to require MercExchange to bring a new, full-scale action for damages every time it uncovered evidence of infringement by petitioners. This rationale is severely flawed. It defies equity to

---

[52] eBay's request for reexamination of the '265 patent, dated March 8, 2004—some 9 months after trial—may be found at http://www.uspto.gov/web/offices/com/sol/og/2004/week15/patreq1.htm.

believe that a threat of contempt proceedings for violating an injunction should weigh in an adjudged infringer's favor. After all, the extent to which there will be further proceedings is almost entirely in petitioners' hands. According to petitioners, in addition to the option of licensing the invention, they have available a simple, inexpensive work-around to make their system non-infringing. JA 865-866.

There is no legitimate reason to put the burden on the innocent patentee to bring successive actions to determine whether petitioners, adjudicated willful infringers, have ceased infringing. Injunctions serve equity by deterring irreparable harm, and they deter because they are backed by the court's contempt power. *See* Owen M. Fiss & Doug Rendleman, *Injunctions* 1004 (2d ed. 1984) ("Contempt makes injunctions work."). To make the basis for deterrence a source of equitable hardship turns equity upside down.[53]

5. Failure To Seek a Preliminary Injunction. The district court relied on MercExchange's failure to move for a preliminary injunction to conclude that denial of a permanent injunction would not cause irreparable harm. Pet. App. 55a. This reasoning does not withstand scrutiny. A preliminary injunction is an especially extraordinary remedy. The standard for granting preliminary injunctions in patent cases has been characterized as "unusually stringent." *Smith Int'l*, 718 F.2d at 1578. That stringency is appropriate because preliminary injunctions preserve the *status quo* before parties' rights have been adjudicated: at that stage, it is uncertain whether the plaintiff deserves any remedy. Moreover, "irreparable harm" has a different meaning at the preliminary injunction stage than at the permanent injunction

---

[53] Petitioners' expressed concerns about being found in contempt for infringing MercExchange's patents are overblown. Enjoined infringers have substantial protection against charges of contempt. The Federal Circuit has carefully enforced the specificity requirement for injunctions in Fed. R. Civ. P. 65 to "reliev[e] parties from the burden of adjudicating unwarranted contempt proceedings." *Additive Controls & Measurement Sys.* v. *Flowdata, Inc.*, 986 F.2d 476, 480 (Fed. Cir. 1993).

stage. At the preliminary stage, the only "harm" that matters is harm that the movant suffers during litigation that cannot be adequately remedied after final judgment; if the injury can ultimately be remedied by a permanent injunction plus damages, then there may not be a need for an interim injunction.[54] For these reasons, preliminary injunctions "are not routinely to be granted," *High Tech*, 49 F.3d at 1554, and are often denied even in cases where a permanent injunction is awarded after a patentee prevails on the merits, *see Lermer Germany GmbH* v. *Lermer USA, Inc.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996); *see also* Laycock, 103 Harv. L. Rev. at 732 (preliminary injunctions often denied even where the injury is by definition irreparable and permanent injunctions are "routinely" granted).

The district court's reasoning would also have deleterious consequences for the conduct of litigation. It would signal to patentees that they must generally seek a preliminary injunction to preserve their right to an injunction after final judgment. Such a requirement would needlessly complicate patent cases by compelling a preliminary airing of all central issues in the case, from claim construction to prosecution history estoppel to patent validity. Patent cases are complex enough when each issue is tried once; it would be to no one's benefit that they be tried twice.

Petitioners try to bolster the district court's reasoning by portraying MercExchange's decision not to move for a preliminary injunction as a form of laches that should cut against its call for a permanent injunction. *See* Br. 15 (MercExchange "delayed two years before seeking any form of injunctive relief"). This argument misrepresents the record and the law. First, MercExchange did not delay in seeking injunctive relief: its *initial complaint* requested a permanent injunction to enjoin continued infringement. C.A.J.A. A315; JA 84. Second, the equitable defense of laches arises

---

[54] *See Walgreen Co.* v. *Sara Creek Property Co.*, 966 F.2d 273, 275 (7th Cir. 1992) (at preliminary stage, only harm "not rectifiable by" final judgment is relevant); *see also* Dobbs, *supra* n.33, § 2.11(2), at 253 n.2.

where a patentee unreasonably delayed in bringing suit. *See Gasser Chair Co.* v. *Infanti Chair Mfg. Corp.*, 60 F.3d 770, 773 (Fed. Cir. 1995). But there is no contention that MercExchange delayed in *bringing suit* for infringement, and, in any event, the complaint took away any potential claim that petitioners were later surprised by MercExchange's motion for a permanent injunction.[55]

*****

There is no important public interest that counsels against a permanent injunction in this case. Petitioners have not identified one, and logic suggests that continued availability of fixed-price sales on eBay is not the kind of significant public interest that could justify curtailing a patent holder's statutory rights. *See, e.g., Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547-1548 (Fed. Cir. 1995) (citing cases). On the other hand, as the district court acknowledged (Pet. App. 56a), there is a strong public interest in issuing an injunction—the interest in protecting the patent system's integrity. Moreover, none of petitioners' (and their *amici*'s) parade of horribles regarding permanent injunctions is remotely applicable here. MercExchange is not a "patent troll" or any other kind of patent bogeyman. MercExchange did not buy the '265 patent in order to "hold up" eBay; its founder is the inventor, who both filed for his first patent before eBay existed and then tried to build a business to practice his inventions directly. *See* pp. 1, 3, *supra*. Merc-

[55] The district court also improperly relied on media reports, based on conciliatory remarks MercExchange made to the press, that MercExchange was seeking damages and was not seeking to "put eBay out of business." Pet. App. 54a n.13. Of course MercExchange was seeking damages; petitioners had willfully infringed the '265 patent since 2000, and there is no other remedy for past infringement. And whether or not it was seeking to put eBay out of business, MercExchange was certainly seeking to put eBay out of the business *of infringement*, as its prayer for injunctive relief in its complaint shows. Moreover, the award of damages MercExchange sought was, as its damages expert testified, designed only to address past infringement because "there would be an injunction" to stop future infringement. Tr. 2212.

Exchange did not try to extort money from eBay by threatening an injunction; MercExchange was willing to license its patent to eBay, but eBay preferred to steal it. And eBay has alleged no harm from an injunction that should count in any balance of hardships. *See* pp. 31-32, 34-35, *supra*.

In the Federal Circuit, this case presented the concrete question whether the district court abused its discretion by refusing to enjoin adjudicated willful infringers when there were no legitimate interests—public or otherwise—justifying a permanent injunction's denial. Because any reasonable analysis of the relevant equitable factors leads to a conclusion that an injunction should issue, the Federal Circuit's decision should be affirmed.

III. THERE IS NO REASON TO REVISIT THIS COURT'S PRECEDENT ON THE STANDARD FOR ENTERING A PERMANENT INJUNCTION IN PATENT CASES

In *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908), this Court made clear that a permanent injunction could be granted despite the patent holder's complete non-use of the patented invention, and indicated that injunctive relief was the only way to protect the exclusive rights "which the law confers upon the patentee."[56] *Continental Paper Bag* was essentially about whether complete failure to exploit a patented invention—*i.e.*, a patent holder's failure directly to use the invention or to license it to others—amounted to a form of patent suppression or misuse that should deprive the patent holder of access to equitable relief. That question has no relevance here. MercExchange attempted, albeit unsuccessfully, to commercialize its invention and has licensed its patent to others. As the facts of this case do not implicate the non-use issue, this case presents no real occasion to revisit *Continental Paper Bag*.

On the other hand, were this Court to reverse the Federal Circuit on the ground that denial of a permanent injunc-

---

[56] The Court reserved room for a possible exceptional case in which the public interest might justify refusing equitable relief. 210 U.S. at 430.

tion was justified by MercExchange's failure to commercialize its invention directly, such a reversal would, in effect, require the Court to disavow the central reasoning of *Continental Paper Bag*. This Court should not depart from that reasoning or the century of precedent that has followed it. *Continental Paper Bag* interpreted a statutory provision that was reenacted without substantive change in the current Patent Act, and so *stare decisis* is a particularly powerful bar to its reconsideration. Further, petitioners have provided no reason to believe that the principles of *Continental Paper Bag* no longer reflect sound policy. Nor do they explain why this Court is the proper body to address policy concerns that have no basis in the facts of the present case.

A. *Stare Decisis* Is Particularly Forceful With Respect To *Continental Paper Bag*

Considerations of *stare decisis* are particularly forceful in situations like this one, where the Court's statutory interpretation has been accepted as settled law for an extended time. *See, e.g., IBP, Inc.* v. *Alvarez*, 126 S. Ct. 514, 523 (2005). Since *Continental Paper Bag*, Congress has not seen fit to impose a requirement that the patent holder practice, license, or otherwise "use" the invention. Congress has certainly not been ignorant of the non-use issue: some foreign countries had use limitations in their patent laws, and, from 1832 to 1836, Congress itself briefly imposed a use requirement on patents issued to aliens. *See* 210 U.S. at 429-430. Congress's choice not to include a use restriction for patents reflected its policy judgment "that the sciences and the useful arts could be best advanced by giving an exclusive right to the inventor." *Id.* at 429. Because this right can only be "retain[ed]" by preventing its violation, injunctive relief is available whether or not the patent holder chooses to "practice" or otherwise exploit the invention. *Id.* at 429-430.

This Court and the lower federal courts have followed *Continental Paper Bag* for almost a century. In so doing, this Court has repeatedly reaffirmed that the patent right is a right to exclude that carries no obligation on the patent holder to exploit the invention. Disclosure and the limited

duration of the patent grant—rather than a use requirement—are the means that Congress has chosen to "promote progress" in accordance with the Constitution. And this Court has declined to consider "whether a better rule governing the grant of patents could be devised than that prescribed by Congress, as this Court has interpreted it." *Special Equipment Co.* v. *Coe*, 324 U.S. 370, 379 (1945).[57]

Congress has rejected numerous efforts to overrule or narrow *Continental Paper Bag* by introducing a use requirement or regimes of compulsory licensing.[58] Furthermore, Congress's revisions to the patent law since *Continental Paper Bag* have only reinforced that decision. In the Patent Act of 1952, Congress reenacted and codified the patent laws. Congress did not take the occasion to impose any use requirement, and instead made unmistakably clear that the patent right is a "right to exclude" others from making, using, or selling the invention. 35 U.S.C. § 154 (1952). And

---

[57] *See also Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 510, 514-515 (1917) (citing *Continental Paper Bag* and noting that "[i]t has long been settled" that the patent statute gives the inventor the right to exclude others from making, using, or selling the invention; the statute does not prevent the patent holder from withholding her invention from public use); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) (citing "clearly established principles" from *Continental Paper Bag* that patent statute confers right to exclude others from making, using, or selling the invention; no use requirement in statute); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 417 (1945) (reaffirming *Continental Paper Bag* and noting that the court cannot enforce a decree that would punish non-use); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (reaffirming *Continental Paper Bag* and noting that the essence of the patent right is the right to exclude); *Rite-Hite*, 56 F.3d at 1547 (affirming that the right to exclude is granted in consideration of the patentee's disclosure of the invention, not for the patentee's use of the invention).

[58] *See Hartford-Empire*, 323 U.S. at 417; *see also Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 197, 202 & n.21 (1980); *Special Equipment*, 324 U.S. at 378-379; Anthony P. Valach, Jr., *TRIPS: Protecting the Rights of Patent Holders and Addressing Public Health Issues in Developing Countries*, 4 Chi.-Kent J. Intell. Prop. 156, 181 (2005) (recent failure to provide for compulsory licensing of health-related inventions).

in 1988, Congress amended § 271(d) of the Act to confirm that a patent holder's complete non-use of a patent—failure to use or license it—does not constitute patent misuse. *See* 35 U.S.C. § 271(d)(4). Thus, even if the present case provided occasion to revisit *Continental Paper Bag*, this Court's long adherence to that precedent and Congress's acquiescence in and reaffirmation of that case's statutory interpretation mean that *stare decisis* has special force.

B. Patent Policy Supports The "General Rule" That Injunctions Should Issue When Infringement Is Found

Petitioners and their *amici* argue that the emergence of complex technologies counsels greater flexibility in enforcing patent rights via injunctions against large corporate enterprises, and decry the rise of "patent assertion companies" that, they argue, impede the legitimate exploitation of these technologies. *See, e.g.*, Br. of *Amici* Business Software Alliance et al. 12-18; Br. of *Amici* Time Warner, Inc. et al. 12-19; Br. of Yahoo! Inc. 5-11. Petitioners produce little evidence, however, to support these policy-based arguments. Nor have petitioners explained how problems raised by today's technologies differ in kind from those raised by complex and interoperable technologies of earlier eras—television, radio, the telephone, systems for electric light and for electricity generation and transmission, railroads, the airplane, and the automobile. *See Proceedings and Addresses: Celebration of the Beginning of the Second Century of the American Patent System, 1891*, at 121-127 (U.S. Bicentennial Commemorative ed., 1990) (describing "epoch making" inventions).[59]

This Court should be wary of adopting a dramatic response to a potentially nonexistent problem. The patent system may need improvement, but Congress is far better situated to survey, and to draw appropriate conclusions regarding, the complex interaction between patents and mod-

---

[59] *Continental Paper Bag* itself involved a technology that had to be "interoperable" with others—a device that performed only part of the process of creating a portion of a paper bag. *See* 210 U.S. at 406.

ern technology. Congress has not shown a lack of interest in the patent system; over the past three decades, it has repeatedly acted to enhance and to stabilize the value of domestic patent rights by, for example, extending the range of acts that infringe, 35 U.S.C. § 271(f)-(g); creating a new court of appeals to bring greater certainty to patent law, *see* Dreyfuss, 64 N.Y.U. L. Rev. at 1-3; and making clear that non-exploitation of a patent does not sacrifice its enforceability, 35 U.S.C. § 271(d)(4). Last year Congress considered legislation that "would arguably work the most sweeping reforms to the U.S. patent system since the nineteenth century." Wendy H. Schacht & John R. Thomas, *Patent Reform: Innovation Issues*, CRS Report for Congress, at CRS-39 (July 15, 2005). In this vein, it was proposed that § 283 be amended to instruct courts to "consider the fairness of [an injunctive] remedy in light of all the facts and the relevant interests of the parties associated with the invention." H.R. 2795, 109th Cong. § 7 (2005). It would seem strange for this Court, under the guise of respect for Congress, to alter a long accepted interpretation of § 283 partly on the ground that Congress itself has declined to amend that section.

Policy arguments based on the rise of "non-practicing entities," "patent assertion companies," or "patent trolls" are also properly directed at Congress, not the courts. First, it is not clear that such entities are harmful to patent law's purpose. Even the most unsightly "troll" may "promote progress" by acting as a kind of patent arbitrageur, allowing inventors to sell rights to those having the means or knowledge to exploit them. Ronald Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 Tex. L. Rev. 961, 1024 (2005); *see also* Br. of *Amici* Rembrandt IP Management, LLC et al. 5-11. Although a large-company infringer may be discomfited when sued by a small-entity patentee that it cannot threaten with a patent countersuit, that hardly

proves that injunctive relief for the small entity does not conform with equity or "promote progress." *See id.*[60]

Second, because virtually all patent holders are "non-practicing" to some degree, it is difficult to determine who the problematic "trolls" are.[61] Patents generally include multiple distinct claims and are often parts of "families" of related patents. Even a patent holder that directly practices some claims of some of its patents is likely to be "non-practicing" with respect to others. Further, distinguishing between licensors of patents on the basis of whether they license exclusively (apparently upstanding behavior) or whether they license non-exclusively (apparently "troll-like" behavior) makes no sense: courts should not adopt an equitable rule that disfavors those who license freely. *United States* v. *Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1137 (D.C. Cir. 1981) ("We should hesitate before we impose a legal rule that would force a patentee to follow the more anticompetitive route of a single exclusive license."); *see also* Br. of *Amici* Rembrandt et al. at 11-18.

As petitioners and their *amici* point out, several recent studies have suggested improvements in the patent system. Virtually all of those studies, however, have focused on improving patent quality—*i.e.*, the merit and value of patents and their disclosures—rather than weakening patent rights. *See, e.g.*, FTC Report, Exec. Sum. 1-18 (advising various reforms without suggesting reducing the availability of per-

---

[60] Moreover, large-company infringers are unlikely to be helpless: they have historically had great negotiating leverage through advantages in technical and legal knowledge, business savvy, or resources to endure litigation. *See* John C. Stedman, *Invention and Public Policy*, 12 Law & Contemp. Probs. 649, 660 (1947) ("[A] powerful infringing corporation may make it virtually impossible for a patentee without substantial resources to establish the validity and infringement of his patent.").

[61] Petitioners' *amici* appear willing to exempt various entities, including universities, government laboratories, and corporations like the *amici* from the status of "trolls." But it is difficult to justify the lines they draw as ones of principle, rather than convenience. *See* Mann, 83 Tex. L. Rev. at 1023-1024 ("status as a troll is in the eye of the beholder").

manent injunctions). Whatever merit such proposals have, they have nothing to do with this case, which is hardly an appropriate vehicle to rectify the patent system's ills.

In sum, this Court should avoid seeking to implement a policy "fix" where problems are rarely simple or discrete, and where the policy arena itself is undergoing substantial change. Congress has set the terms of the patent bargain: "rights to exclude" in exchange for disclosure. For centuries, courts have correctly understood that injunctions should ordinarily issue to enforce that bargain's terms. Congress should decide whether and how the "general rules" that regulate the patent bargain should be altered.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

SCOTT L. ROBERTSON
GREGORY N. STILLMAN
JENNIFER A. ALBERT
DAVID M. YOUNG
BRIAN M. BUROKER
HUNTON & WILLIAMS LLP
1900 K Street, N.W.
Washington, DC 20006
(202) 995-1500

SETH P. WAXMAN
Counsel of Record
WILLIAM G. MCELWAIN
PAUL R.Q. WOLFSON
JOHN M. GOLDEN
SHIRLEY CASSIN WOODWARD
WILMER CUTLER PICKERING
HALE AND DORR LLP
2445 M Street, N.W.
Washington, DC 20037
(202) 663-6000

MARCH 2006